

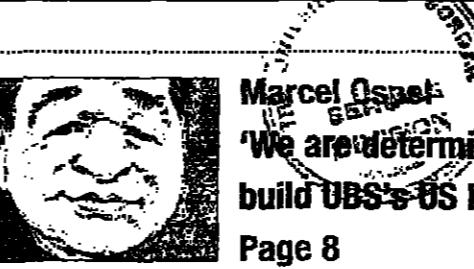
FINANCIAL TIMES

World Business Newspaper <http://www.FT.com>



Japan's monetary policy
Sounds of real debate
emerge from central bank
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MONDAY MAY 25 1998



Marcel Ospel:
'We are determined to
build UBS's US business'

MBA students' heroes
Family values replace
the dash for cash
Page 10

WORLD NEWS

Japan expected to drop high-profile investigation into financial corruption

Japan appears to be dropping its high-profile probes into financial corruption among bankers and bureaucrats which have tarnished the reputations of many prominent institutions and officials in the financial community, including the Bank of Japan and the Finance Ministry. Page 14; Savings system faces loss, Page 4

Hungary uncertain after vote
Hungary's political future looks uncertain as neither the ruling Socialist party nor the centre-right Fidesz-Hungarian Civic party appeared to have secured an overall majority in the third poll since the fall of communism. Page 2

Ortega keeps Sandinista post
Daniel Ortega and Tomas Borge, the old guard of Nicaragua's Sandinista leadership, were re-elected to top posts in the party, in a setback for reformers. Page 5

Hong Kong goes to the polls
More than half of Hong Kong's voters cast their ballots in the first elections under Chinese rule, despite heavy rains which flooded several polling stations. Page 4

Aircraft hijacked in Pakistan
A Pakistan International Airlines aircraft with 38 people on board was hijacked during a domestic flight in southern Pakistan. It landed at Hyderabad airport, where the three hijackers claimed to be Indians. Page 2

Bid to win Israelis to Golan
A campaign to settle more Israelis in the Golan Heights will begin today with the sale of state-subsidised homes, the Golan Heights settlers regional council said. Ginge-rich bows to pressure, Page 2

Slovakia puts EU entry at risk
Slovakia risks an open conflict with Austria over its plans to start up a Soviet-designed nuclear power station. The dispute could reduce Slovakia's chances of admission to the European Union. Page 2

US continues Saudi bomb probe
The US is continuing investigations into a possible Iranian link to the 1988 bombing of a military housing complex in Saudi Arabia despite a Saudi statement that foreign terrorists were not involved. Page 3

UK acts on Britons' safety
The UK is seeking assurances about the safety of British employees at the Hub power station near Karachi after police had prevented them from leaving the site. Page 4

Nine expert murdered
British mine clearance expert Christopher Howes, missing in Cambodia for more than two years, was murdered shortly after his kidnapping by Khmer Rouge guerrillas, the Foreign Office said.

Zia's cuts meet problems
Chinese premier Zhu Rongji has met opposition over plans to cut the central government's bureaucracy by half. Page 4

Army steps up Hutu offensive
The Tutsi-dominated Rwandan army said it had stepped up operations to crush Hutu militia hiding in the north of the country. Cholera has killed 31 people in the country's southwest.

43 die in Sri Lankan fighting
At least 43 people died in fierce fighting between Sri Lankan troops and Tamil Tiger rebels in the east and north of the country, military officials said.

Colombian rebels storm prison
About 200 leftwing rebels stormed a prison in southwest Colombia, freeing more than 320 convicts and killing two guards and two inmates.

EURO INTEREST RATE CONVERGENCE



Expected convergence rate 3.75%

Euro prices, Page 21

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BUSINESS NEWS

Credit Lyonnais to launch rescue plan by selling stake of up to a third

Credit Lyonnais de France plans to sell up to a third of its shares to institutional investors before the end of the year. The move will be a stage towards the privatisation agreed last week in a Brussels-approved rescue plan. Page 15

Swiss Bank Corporation knew of Union Bank of Switzerland's derivative problems when their courtship began, said SBC chief executive Marcel Ospel. UBS's global equities derivatives management group is said to have been responsible for losses of up to \$465m (\$444m) in 1997. Page 17; Premier league player, Page 8

Miror Group, UK tabloid newspaper owner, is expected to receive approaches from other suitors after it emerged that Germany's Axel Springer group is considering a bid. Page 15

Bertelsmann's planned joint digital pay-TV venture with fellow German media company Kirch looks likely to fail foul of the European Commission. Press reports say they refused to make concessions to enable the plan to get EU competition authority approval. Page 2

British electricity supply groups want the government to reject proposals that would force them to split some businesses. They say the move could cost 2500m (\$383m). Page 6

Cantor Fitzgerald and the New York Cotton Exchange have modified their electronic trading system proposals in the hope of winning approval for their challenge to the Chicago futures exchanges. Page 15; Outcry over plan, Page 16

Bank for International Settlements figures show loans by international banks to Asia fell by a net \$4.8bn in the second half of 1997. Lending to South Korea and Thailand fell, while loans to China, Latin America and eastern Europe rose. Page 2

Bank of New York is keen for more acquisitions after withdrawing last week from its \$24bn bid for Mellon Bank of the US. Page 16

IBM of the US has hit problems in developing CoreBank, its basic computer platform for banks. IBM has sold the system in the UK, France and Sweden, but has had difficulties adapting it. Page 16

Monsanto, US life sciences group, is a leading contender to buy Plant Breeding International, the seed business Anglo-Dutch group Unilever put up for sale last month. Page 16

China plans to amalgamate provincial telecoms authorities' paging operations into a state company, probably a China Telecom subsidiary. The planned company would be allowed to list some shares to raise funds. Page 3

Postal Savings Bureau, Japan's state-owned postal savings system, will probably make a loss this year because of the slump in long-term rates, says a senior official. Page 4

Fujitsu saw consolidated net profits rise 68 per cent to Y5.5bn (\$41.1m). The Japanese computer and semiconductor maker blamed plunging chip prices, Asia's currency crisis and the costs of acquiring Amdahl. Page 17

World Equity Markets
The latest trends and data from more than 50 national markets at a glance. Page 29

Parties set for battle over N Ireland assembly seats

By John Murray Brown, David Wighton and Jimmy Burns

In spite of the emphatic 71 per cent Yes vote in the referendum, politicians on all sides stressed the many obstacles that still lay in the path to a lasting peace.

Gary McMichael, of the Ulster Democratic Party, warned the loyalist ceasefire could be threatened by renewed violence from republican splinter groups following a number of terrorist incidents over the weekend.

There were also nationalist calls for the scrapping of the most contentious Orange parades as the marching season gets under way next week.

Gerry Adams, the president of Sinn Féin, the political wing of the IRA, appealed for a cessation of violence by all armed groups. But Mr Trimble said it was time for Mr Adams "to deliver" by persuading the IRA to decommission its weapons.

The strength of the Yes vote will be used this week by Mr Trimble in his attempt to reassess his authority on his party after more than half his MPs rebelled to back the No campaign. Mr Trimble's attempts to persuade his party's constituency associations to select candidates supportive of the agreement will be boosted by the findings of Friday's exit polls. These showed that more than two-thirds of those unionists who voted No still want the assembly to work.

Mo Mowlam, the Northern Ireland secretary, yesterday urged the voters to back candidates who supported the agreement. "We had a vote for non-violence and if people are going

to mirror that, they have to vote for people who will implement the spirit of that agreement."

Jeffrey Donaldson, the young Ulster Unionist MP who backed the No campaign but is seeking party backing to stand for the assembly, said he believed a majority of unionists had voted Yes. Referring to Sinn Féin's efforts to persuade the moderate nationalist SDLP to enter a coalition, Mr Donaldson called for unionism to heal the split. "I think unionism has come to a point where we can find a greater degree of unity in our own ranks," he said.

Reports, Page 5
Past tense, future hopeful and Editorial Comment, Page 13
Lex comment, Page 16

Merger of Russian oil groups 'unlikely to be completed'

By Chrystia Freeland in Moscow

The merger of the Russian oil companies Yukos and Sibneft, billed as creating the world's largest oil group, will be frozen until the end of the year and will probably never take place, according to an executive close to the negotiations.

The companies are expected to announce publicly this week the decision to freeze the merger plan. The statement is expected to insist the separation is amicable and that they will continue to co-operate, using downstream facilities owned by Yukos to sell oil refined by Sibneft.

It is unlikely to be completed. The companies are expected to hold on until the end of the year.

Even if the merger is never completed, Elf executives appear confident their group will still secure a strategic foothold in the Russian oil sector and a sign that Russia might soon have oil companies with reserves to rival those of any in the world.

The alliance was also seen as an important political event, signalling a partnership between Mikhail Khodorkovsky, the pow-

erful financial magnate who runs Yukos, and Boris Berezovsky, an influential financier turned politician with close ties to Sibneft.

Executives at Yukos said the merger began to run into trouble this spring, as low international oil prices worsened the financial positions of the two companies and made consolidation more troublesome. Both had dollar-denominated loans which the lower oil price made harder to repay. Yukos took out a \$800m five-year loan from a consortium of foreign banks last year to help buy the Eastern Oil Company, while Sibneft last summer floated a three-year \$125m eurobond.

It has also proved difficult to manage the management teams.

After setting up offices in the same building immediately after the merger had been announced, a few weeks ago they moved back to their separate headquarters.

The decision to freeze the merger will raise questions for Elf-Aquitaine, the French oil company which has agreed to buy a 5 per cent stake in Yukos.

Even if the merger is never completed, Elf executives appear confident their group will still secure a strategic foothold in the Russian oil industry. One possibility would be to substitute the 5 per cent stake in Yukos it plans to buy for \$525m for a 12 per cent stake in Sibneft.

Elf is also looking to buy a 12 per cent stake in Yukos for \$525m.

Picture: AP



East Timorese rebel leader Jose Alexandre Gusmão (right), one of several political prisoners hoping to be released from jail by the new Indonesian government, with supporters in the grounds of a Jakarta prison yesterday.

Picture: AP

The Gap to sell clothes worldwide through the internet

By Peggy Hollinger in London

The Gap, a major international clothing brand and retailer, plans to launch a worldwide shopping service on the internet by early next year.

The move could provide a significant boost for so-called e-commerce by encouraging other international clothing retailers to follow suit. E-commerce sales at present involve mainly computer equipment and software, books and music.

The Gap last year notched up sales of \$2bn in six countries. It is unclear how many countries it plans to serve or what its pricing policy will be for its trademark casual clothing ranges.

Warren Hasbagen, chief financial officer, said results from the on-line store launched in the US last November had been "very, very encouraging". Our current target would be to launch (internationally) by early next year."

Hennes & Mauritz, the Swedish fashion group with stores in 10 countries, is understood to be planning to extend its domestic on-line shopping service beyond Sweden in the near future.

Although a growing number of clothing retailers are exploring opportunities for on-line stores, few have expanded outside their domestic markets. The complexity of pricing for different markets and delivering products at affordable rates and within reasonable times has deterred many companies from pursuing international internet sales aggressively.

However, for those such as The Gap and Hennes & Mauritz, which already have a substantial international presence, on-line sales could be fulfilled from the distribution depots and warehouses which serve their stores.

The arrival of such heavyweight names to international internet retailing is certain to make their markets more competitive, according to Keith Wills, retail analyst at Goldman Sachs. "Customers are going to have access to better merchants worldwide," he said.

Forrester Research, the US consultancy group, estimates retail spending on the internet will rise from \$1.8bn last year to almost \$10bn by 2001.

Serbs launch attack on Albanian rebels

By Guy Dimmore in Dolovo, Serbia

(KLA), which is fighting for Kosovo's independence. Local journalists said Serbian security forces have launched a large offensive against ethnic Albanian rebels in the southern province of Kosovo, leaving a trail of burning villages as they pound the separatists with artillery and helicopters.

The operation has dashed hopes that US-arranged peace talks, which began on Friday between the Serbian government and political leaders of the ethnic Albanian majority, would stop the conflict from developing into a full-scale war.

Plumes of smoke rose from the rubble of farmhouses in the mainly Moslem village of Dolovo, close to the front line, just south of the town of Kline. Dead cattle lay in fields.

On doors and walls of the ruined homes, Serbs had daubed in black paint the sign of the cross and the ancient national emblem of four Cyrillic letters that stand for "Only Unity Saves the Serbs".

Artillery and machine-gun fire could be heard from the direction of nearby Jablanica, believed to be a stronghold of the clandestine Kosovo Liberation Army.

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WORLD NEWS

BANK FOR INTERNATIONAL SETTLEMENTS MARKED DROP IN LENDING TO S KOREA AND THAILAND OFFSET BY INCREASE IN CHINA LOANS

International bank loans to Asia fall

By George Graham,
Banking Editor

International bank lending to Asia fell to \$1.8bn in the second half of last year, but the crises that swept the region had only a limited effect on bank financing to Latin America and eastern Europe, according to new debt statistics from the Bank for International Settlements.

The Basle-based central bankers' organisation said cross-border lending by

banks in major industrial countries to Asia fell to \$83bn at the end of December, with marked drops in lending to South Korea and Thailand offset by an increase in loans to China.

But lending to Latin America increased by \$2.8bn to \$23.8bn, while loans to eastern Europe rose by \$3.8bn to \$12.9bn. "The further increases in the claims on Latin American and eastern European countries point to limited contagion outside Asia," the

BIS said. Publication of the statistics has been hurried through in response to complaints from central bank governors that the BIS data came out too late to provide a useful early warning of financial problems in developing economies.

Although earlier BIS data had revealed a build-up in short-term borrowing by Korea and Indonesia in the first six months of 1997, the figures came out in January this year, after both coun-

tries had plunged into crisis.

The BIS is working on plans to produce quarterly figures and to expand the number of countries from which it collects loan data. The figures do not, for example, currently show lending by Korean banks to Indonesia. It also wants to gather data on an "ultimate risk" basis, so that a loan to an Indonesian company channelled through Singapore would show up as Indonesian borrowing.

The latest BIS statistics, published this morning, show cross-border lending to Indonesia remained virtually unchanged in the second half of last year at \$5.8bn, with an increasing proportion of short-term debt.

The data also show a sharp increase in lending to Argentina, where cross-border claims rose by \$6m to \$6.4bn. The surge stemmed almost entirely from loans by Spanish and UK banks. However, officials said the rise probably reflected financing for acquisitions by British and Spanish companies rather than unsustainable dependence on external borrowing.

The BIS said that while Japanese and north American banks had reduced their exposure to Asia in the second half of 1997, European banks had continued to increase their lending in the region and had also stepped up their activity in Latin America and eastern Europe.

* Consolidated international banking statistics for end-1997: <http://www.bis.org>

Poll gives Hungary political dilemma

By Kevin Donohue and Kester Eddy
in Budapest

Hungary headed into a period of political uncertainty last night as prime minister Gyula Horn's ruling Socialist party and the centre-right Fidesz-Hungarian Civic party both appeared to have failed to secure an overall majority in the country's third election since the demise of communism.

Exit polls indicated that the Fidesz-Hungarian Civic Party had emerged as the single largest force in its electoral alliance with the small Hungarian Democratic Forum party.

Together they were set to win around 158 seats in the 386-member parliament, according to the polls, with Fidesz alone winning 141 compared with only 20 seats four years ago.

Fidesz more than quadrupled its share of the vote in the first round two weeks ago - 28.2 per cent, while the Socialists were virtually unchanged at 32.3 per cent.

However, under Hungary's complex electoral system the Socialists lost substantial ground yesterday in the first-post-the-post voting for the 176 single-member constituencies.

Exit polls suggested they had captured only around 142 seats down sharply from 209 in 1994. With this result the Socialists would be unable to form a majority coalition even with the support of their present allies, the liberal Alliance of Free Democrats, whose vote collapsed giving them a paltry 24 seats compared with 69 at the last election.

The exit polls suggested some protracted horse-trading lies ahead as party leaders seek the basis for forming a new coalition.

The main options last night appeared to be a centrist-right coalition between Fidesz and the populist, rightwing Smallholders party, or a grand coalition of Fidesz and the socialists. If the parties fail to resolve the impasse, the spectre looms of fresh elections in the autumn.

Yesterday's second round of the election confirmed the spectacular rise of Fidesz, the party founded 10 years ago by a group of dissident law students, which has emerged as the main centre-right party in Hungary.

Viktor Urban, the 34-year-old Fidesz leader, has emerged on a credible challenger for the post of prime minister as the standard-bearer of the centre-right, signalling a generation change in Hungarian politics.

Spain's 'dirty war' casts ex-cabinet minister in spotlight

Today sees the start of a trial over the first crime in the name of the shadowy Gal organisation. David White sets the scene

For the first time since democracy returned to Spain more than 20 years ago, a former cabinet minister goes on trial in the supreme court today in a politically explosive case about illegal counter-terrorist operations.

José Barrionuevo, former interior minister and a Socialist member of parliament, and Rafael Vera, former state secretary for security, face 23-year jail sentences if they are found guilty on charges of kidnapping, belonging to an armed gang and misappropriation of public funds.

State prosecutors are seeking sentences of eight to 22 years for 10 other defendants - former senior officials and policemen. It is not the first trial over Spain's "dirty war" and almost certainly not the last. But it is the first to reach the top levels of power and is considered the master case, since it concerns the first crime claimed in the name of Gal, or Anti-Terrorist Liberation Groups, a shadowy organisation which surfaced under Spain's previous Socialist government.

Felipe González, the former prime minister, who was named in an earlier stage of the investigation but who has denied authorising or condoning Gal, is due to testify along with a clutch of other ex-ministers, party officials, former police chiefs and generals. Complex issues still need resolving about the law on prescription of crimes and whether a 10-year or a 15-year rule should apply. The Gal campaign falls between the two.

In the long process leading to the courtroom, the case has been surrounded by acrid controversy, and allegations of a smear campaign serving political or private interests.

Francisco Alvarez-Cascos, deputy prime minister and strong-arm man of the ruling Popular party, has been called as a witness by Mr Barrionuevo's defence.

Its charges of political manipulation focus on an alleged meeting in a newspaper office in December 1994, between Mr Alvarez-Cascos and a lawyer representing two policemen, whose evidence came to play a vital part in the case immediately afterwards.

The officers, jailed in 1988 and subsequently sentenced to 108 years each for several attempted murders (and also among the accused in today's trial), were released on parole in exchange for testimony implicating their superiors.

A second murky aspect involves contacts in 1985 between a former intelligence colonel, who had documents relating to Gal, and Mario Conde, a disgraced banker who was at the time seeking a deal with the



José Barrionuevo arriving at court for an earlier hearing; he faces a 23-year jail term if found guilty in the Supreme Court trial which starts this week AP

Socialist government.

The colonel was court-martialed last year and sentenced to seven years for stealing the documents. Mr Conde is serving a 4½-year embezzlement sentence and undergoing a second fraud trial.

The supreme court charges relate to a bungled kidnapping in 1983. Prosecutors allege that a decision "to act out the law" was taken after Eta, the outlawed Basque separatist group, executed an army chief it had taken captive.

After an earlier failed kidnap operation, Segundo Marey, an office furniture dealer of Spanish origin, was seized from his home in the French Basque region by four men, who mistook him for a known Eta member living nearby. He was released after 10 days.

The Gal organisation, using French and Portuguese mercenaries, was subsequently blamed for killings in south-west France, including bomb and automatic weapon attacks against bars where Eta sympathisers were meeting. Some of the victims were clearly unconnected with Eta.

There were reprisal killings before Gal. A series in both France and Spain between 1978 and 1981, when Eta's armed campaign was at its height, was attributed to various shadow organisations. But not until Gal was responsibility traced to senior officials.

Some 35 people have already been jailed in France, Portugal and Spain on Gal-related charges.

Apart from the Supreme Court case, eight other cases are already under way in the investigation phase in Spain.

A further two cases have been reopened. To quote Baltasar Garzón, the national court judge who has played a key role in pursuing Gal's alleged clients: "There is enough of the Gal case to last until the year 2015."

The Pakistani commercial airliner carrying 38 passengers on a domestic flight was hijacked last night. Government officials said an unknown number of hijackers wanted to take the aircraft to neighbouring India. The hijacking comes at a time when Pakistan's relations with India remain tense, as Islamabad ponders whether to conduct its first nuclear test.

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HIJACKING IN PAKISTAN

Bid to take aircraft to India

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RUSSIAN MINERS

Trans-Siberian blockade lifted

Russian miners yesterday lifted their blockade of the Trans-Siberian railway, sobering a workers' protest which has hit Russia's weakened economy. Miners in Siberia and in the North Caucasus ended their blockade of railway arteries after government ministers sent to the regions last week promised to pay overdue wages according to a strict schedule.

The compromise with miners in the Kuzbas and southern Russia is only a partial solution. Yesterday, miners were still blocking the railway at Irkutsk, on the road to Vorkuta, and other pockets of unrest remained. Miners warned that if their overdue wages were not paid by July 1 they would resume their blockade. Clarysse Freeland, Moscow

SPEAKER'S VISIT TO ISRAEL

Gingrich bows to pressure

Newt Gingrich, Republican speaker of the US House of Representatives, has bowed to pressure from the White House and cancelled a controversial visit scheduled for today to the proposed Jerusalem site of the US embassy to Israel. At the weekend, Sandy Berger, US national security adviser, urged Mr Gingrich, in Israel with a delegation of congressmen and senators, to scrap the visit.

Palestinian officials, who were furious with Mr Gingrich's plans, welcomed his decision to cancel the visit. The US delegation is scheduled to meet Yasir Arafat, president of the Palestinian Authority, in the West Bank town of Ramallah on Wednesday. In 1995, Congress passed legislation to move the US embassy from Tel Aviv, where nearly all foreign embassies are located, to Jerusalem by 1999. Israel claims all of Jerusalem as its capital, including eastern Arab districts captured from Jordan during the 1967 war and later annexed. Avi Machlis, Jerusalem

GREEK BANK STRIKE

Police seize computer centre

Greek riot police yesterday seized control of Ionian Bank's computer centre from striking employees who had shut down the mainframe computer serving the bank's 160 branches. Two Ionian workers were arrested and one police officer was injured in scuffles with demonstrators outside the building in Athens's port of Piraeus.

Ionian employees have been striking for two weeks in protest at the Socialist government's decision to sell a 51 per cent stake to a private Greek bank. The federation of Greek banks called a one-day strike for today in support of Ionian's 4,000 workers. The bank's board of directors has asked for a court injunction declaring the strike illegal. Haris Stamatopoulos, Ionian's chairman, said: "a minimum number of transactions are being handled on trust because the on-line system is frozen, but this situation can't be allowed to continue". Karin Hope, Athens

LAND MINES

US proposal on treaty

The US government is willing to sign the international treaty banning land mines by 2006, but will only do so if its armed forces can create an alternative weapon. Sandy Berger, national security adviser to President Bill Clinton, said the Pentagon was considering new options to replace anti-personnel land mines. In a letter to Senator Patrick Leahy, a strong supporter of the treaty, Mr Berger said the US would end its use of all land mines by 2003 - with the exception of those needed for domestic opposition.

For Slovakia the plant - which has cost Sk17bn (\$460m) since work re-started in 1996 and will cost another Sk10bn before the second unit is completed next year - will halve imports of electricity (currently 14 per cent of supply) and reduce the country's reliance on polluting thermal power stations.

But Austria is surrounded by former communist countries that rely heavily on nuclear power. In the Czech Republic and Slovakia, nuclear plants started under communism are now being completed using western technology.

Slovakia currently relies on nuclear power from Jaslovske Bohunice, an older Soviet-style reactor, for around 40 per cent of its energy production, but this will go up to more than 50 per cent after both units at Mochovce are in use.

But Austria is also worried about Slovakia's growing isolation and has tried to maintain good relations with its neighbour. Mr Klimek, who takes over the EU presidency in July, wants to keep the EU's door open to Slovakia despite Mr Metzler's intolerance of domestic opposition.

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ASIA-PACIFIC

Suharto loyalists removed in top brass shake-up

By Gwen Robinson in Jakarta

A weekend shake-up in the Indonesian armed forces abruptly removed key Suharto loyalists from strategic command positions, in a clear effort by General Wiranto, the military chief and defence minister, to dislodge the former president's hold on the military.

But the hasty withdrawal of one new appointment on Saturday prompted observers yesterday to question whether Gen Wiranto had consolidated his authority over the factionalised armed forces leadership.

Gen Wiranto himself rose to the top military position under Mr Suharto's patronage but played a big role in preparing his transfer of power to BJ Habibie last week.

His reappointment by Mr Habibie was widely wel-

Japanese groups 'have \$11bn loans and credit guarantees in Indonesia'

Japanese trading companies have loans and credit guarantees to Indonesian businesses worth Y1.500bn (\$11bn), according to a Japanese business newspaper, *Nichiyu Nakamido* reports from Tokyo.

The Nikkei newspaper reported yesterday that a study by the Ministry of International Trade and Industry (MITI) found that the total exposure of nine Japanese trading companies to Indonesia came to Y1.500bn in

comics by diplomats and analysts, who have described him as a moderate and a potential national leader. His support is seen as critical for Mr Habibie, who lacks a military background and is unpopular with the armed forces.

trade credits, loans and loan guarantees.

This is equivalent to the known value of the exposure of eight Japanese banks to the country, according to the Nikkei. The exposure of trading companies has been a big factor behind their lower profits in the year to March.

Their exposure to long-term projects, such as electric power generation and chemical plants, raises the prospect that profits in the current year will continue

to be undermined. Many of these projects are expected to be frozen for a year or two. There is an additional risk that loans to such projects could become difficult to recover.

The ministry has set up a special unit to monitor the exposure of Japanese businesses in Indonesia.

According to the Nikkei, MITI carried out a study of Japan's major trading companies to assess their exposure to Indonesia at the end of the financial year in March. MITI officials involved in the study were not available for comment yesterday.

Of the medium to long-term credits, about 20 per cent involve investments in projects, such as the \$1.8bn Chandra Asri chemicals plant in which Marubeni has a stake. The plant is responsible for the kidnap and torturing of political activists.

In what is likely to develop into a military purge of Suharto loyalists, at least three other senior commanders are likely to be removed from their positions in the coming weeks, observers said.

But the officer appointed to replace Gen Prabowo as Kostrad chief was withdrawn after only 18 hours in office. Maj Gen Johnny Lumintang, who took over the Kostrad command from Gen Prabowo on Friday, was replaced on Saturday by Maj

Gen Djamaril Chanago, a regional commander in West Java. The hasty replacement of Gen Lumintang, one of the few Christians in the armed forces' mostly Muslim senior command, was reportedly due to last-minute opposition from other senior commanders.

The removal of Gen Prabowo came ahead of today's expected results from an inquiry into the fatal shooting of six student demonstrators by soldiers at a university in Jakarta on May 12. The shootings touched off violent protests and fuelled public anger at Mr Suharto. The investigation is likely to implicate officers under Gen Prabowo. The speed of the investigation and the implied promise that the offenders will be identified and punished is another sign that Gen Wiranto is in control, diplomats said.

Japan's postal savings system faces loss

By Gillian Tett in Tokyo

Japan's vast state-owned postal savings system will probably fall into loss this year because of the recent slump in long-term interest rates, government officials have warned. The deficit has emerged because the low rates have created a mismatch in the postal system's financial portfolio.

Hiroshi Matsui, deputy director general of the Postal Savings Bureau, said: "Starting with fiscal 1998, we think we will record a deficit in our account for a year or two."

The likely deficit at the bureau is a sharp contrast to the situation earlier this decade. In fiscal 1995 and 1996 the bureau recorded profits of Y1.24bn and Y1.418bn (\$8.3bn and \$10.4bn) respectively. The postal savings system has around Y50,000m in deposits, and is almost as large as the top private banks.

Mr Matsui envisages a surplus of "several hundreds of billions of yen" for fiscal 1997 when the results are published this summer.

The looming deficit illustrates the structural problems in Japan's huge public financial institutions as the economy stagnates and Big Bang deregulation gets under way.

The key reason for the bureau's problems is that it is forced to give most of the money it receives from depositors to the ministry of finance. The ministry then manages these funds by investing them in a scheme known as the Fiscal Investment and Loan Programme (FILP), which also manages

'At the moment the future cost to taxpayers is not necessarily clear'

public pension money.

FILP spends most of the estimated Y400,000m it currently controls on public infrastructure projects or Japanese government bonds. This is equivalent to around two-thirds the size of the official-government budget.

When the economy was booming, yields on FILP investments rose towards 8 per cent. But in recent years the yield has slumped towards 2 per cent, partly because long-term interest rates have fallen sharply.

The Postal Savings Bureau has tried to respond to the falling revenues by cutting the interest it pays on long-term savings accounts to 0.35 per cent. But short-term interest rates have not dropped as sharply as long-term rates. Consequently, this year revenues will not keep pace with liabilities.

"When the yield curve is steep we enjoy high interest margins. But now we have a mismatch of liabilities," said Mr Matsui, who predicted that the bureau would return to profit after "one or two years".

These problems are generating growing alarm among some western observers. David Asher and Andrew Smithers, two UK economists, for example, concluded from recent research that the FILP programme was highly wasteful and held huge bad debts. "Without comprehensive reform the collapse of the FILP house of cards could occur as soon as the dawn of the 21st century," they warned.

However, ministry officials denied that FILP had large losses and pointed out that reform was under way.

The government has recently decided, for example, that around the year 2001 the Postal Savings Bureau will cease giving money to FILP. Instead the bureau will manage the funds itself and try to earn higher returns.

Efforts are also under way to improve FILP's accounting system by introducing "future-cost" analysis to measure future losses more accurately.

As a senior ministry official said: "At the moment the future cost to taxpayers is not necessarily clear and so we would like to introduce future cash flow analysis of the sort introduced in the US in the mid 1980s."

Zhu hits opposition over cuts in staff

By James Kyne in Beijing

Zhu Rongji, China's premier, has run into opposition over his plan to cut the central government's bureaucracy by half by the end of the year, officials said.

Some ministers have parried Mr Zhu's demands to cut staff numbers by arguing their ministry is already overworked, officials in several ministries said.

The plan to streamline China's bloated bureaucracy is a key plank in Mr Zhu's reform programme.

If the initiative founders, Mr Zhu's reputation would be damaged. This could embolden a conservative minority uncomfortable with the speed at which loss-making state enterprises are being privatised, causing a surge in unemployment, commentators said.

Some of the strongest resistance to Mr Zhu has come from Wu Jichuan, the powerful head of the newly created ministry of information industry, officials said. Mr Wu's task has been complicated by the need to appear even-handed in awarding important posts to former members of the ministry of electronic industry and the ministry of radio, film and television, which merged with his own ministry of posts and telecommunications in March.

Mr Wu has sought to bargain with Mr Zhu over the staff numbers he must cut. But the premier has rejected his appeals and set a deadline of May 31 by which most ministries must report on the extent of their proposed cuts, planned new management structures within their ministries and the names of officials in key positions.

"There is no doubt that Mr Zhu has had the upper hand," said one official, who declined to be identified.

The foreign ministry has been told to cut 46 per cent of its number, officials said. But most of this downsizing was likely to come from among support staff in embassies, garages, maintenance and other areas. It was unlikely Chinese embassies overseas would have to cut personnel.

Officials said, although ministries set targets for cuts by May 31, they do not need to be carried out until the end of the year. By then, it is hoped jobs can be found for those who are to go. Executives from several foreign companies in Beijing say they have been approached by ministry personnel seeking jobs.

Hong Kong poll registers big turnout

By Louise Lucas in Hong Kong

More than half of Hong Kong's registered voters cast their ballots in the first elections under Chinese rule yesterday, despite torrential rains which flooded seven of the polling stations.

Over 1.5m voters braved the downpours, representing the turnout of 53 per cent of registered electors for the seats decided by universal suffrage.

Analysts saw the turnout as a vote of confidence in the much-maligned and complex voting system. It was sharply higher than the 35.8 per cent level in 1995 elections, which has been taken as the benchmark by the government to gauge the success of the current poll.

Early indications suggested a strong showing

by the pro-democracy camp, many of whom were ousted from the legislature after China resumed sovereignty over Hong Kong from the UK on July 1 last year.

Casting his vote, Martin Lee, leader of the Democratic party, hailed the elections as "the first step forward for my country, China, towards democracy".

The party's popularity remains high despite diminishing concerns over mainland interference and a perception that the Democrats, like the other parties, have an uninspiring platform on the issue closest to voters' hearts: the slowing economy and rising unemployment.

However, preservation of the rule of law, to which the Democrats are firmly wedded, is an issue of growing concern following a

slew of cases suggesting preferential treatment of well connected individuals and bodies.

Mr Lee's party scored a landslide victory in the 1995 elections, when the Democratic party and pro-democracy allies secured 17 of the 20 universal suffrage seats.

However, preservation of the rule of law, to which the Democrats are firmly wedded, is an issue of growing concern following a

franchises electing the other 40 seats that make up the Legislative Council, or LegCo, will yield a stronger showing by pre-Beijing and - as in the past - pro-business members.

The so-called functional constituencies, which represent business and professional groupings, account for 30 of the seats. Just 230,000 people are eligible to vote for these seats, a fraction of the 2m enfranchised under the reforms of the last governor, Chris Patten. The final 10 seats will be returned by an 800-strong election committee.

Voters do not have a say on their leader, Tung Chee-hwa, who was selected by a Beijing-appointed committee, or the administration. The LegCo is itself less of a law-making parliament than which acts as a check on spending and law devised by the administration.

Yesterday's elections were set in motion after the "through train" - whereby the 1995 LegCo would serve past the handing over by an Sino-British wrangling, Beijing, smarting from Mr Patten's moves to accelerate the pace of democracy in the 1995 elections - which China said breached Sino-British agreements - disbanded the 1995 body and replaced it with an interim provisional legislature.

Clinton team searches for a Chinese village just like home

James Harding reports on efforts by US diplomats and officials planning the president's forthcoming trip to China to settle on an itinerary that will project the country's modernising face

The search is on for a village. But, then, with roughly 800,000 rural communities in China, the task is picking the right one.

As US diplomats and Chinese government officials in Beijing and Shanghai buckle under the enormous planning process for the visit of Bill Clinton and the First Family next month, the White House has signalled interest in a trip to a village - a size of settlement which is home to most of China's 900m rural population.

Indeed, though, the stage managers of Mr Clinton's tour would like a place which shows China in what the US considers to be the best light: a village, which has held direct elections,

ton is therefore expected to do the same when he comes to China. So far, all that is decided is that the US president will definitely visit Beijing and Shanghai.

Diplomats said he was also likely to go to Xian, home of the famous terracotta soldiers, as well as Guilin, which boasts some of China's most spectacular natural scenery.

Chengdu, the capital of Sichuan province in the west, is making a last-ditch bid for a Clinton stopover.

Also undecided are the participants of the Clinton tour.

The president's wife, Hillary, is expected to come and many people in China expect the presidential couple to be accompanied by

their daughter, Chelsea. Madeleine Albright, secretary of state, will also accompany them.

One of the White House's advance parties (in official jargon, a "pre-advance" team) arrived in China this month to start formal consideration of the president's programme.

President Clinton will visit the Great Hall of the People, China's parliament, which stands on the western edge of Tiananmen Square.

Mr Clinton is the first US president to visit China since the massacre at the square of pro-democracy campaigners in June 1989.

Most of his time in Beijing

will be spent with Chinese state leaders, but the White House team is looking at other possible engagements, such as delivering a speech at Beijing University, which

celebrates its 100th anniversary this year.

The planning of the visit is consuming much of expatriate America's time in China. In the words of one American official, the presidential visit requires "all our resources, plus". Delicate decisions include where the president might make a public address in Shanghai - a local university or the grand new trading floor of the Shanghai stock exchange, symbol of the city's ambitions of becoming a regional financial centre. There has been speculation on whether members of the presidential party will hold a meeting with the American Chamber of Commerce in June 1998.

Under that policy, the state-run Water and Power Development Authority (Wapda) is obliged to buy at least 60 per cent of the electricity generated by each power plant.

Last week, the provincial high court at Lahore, Pakistan's second largest city, ruled that Hubco's tariff of 7 US cents per kilowatt hour should be cut by more than half to 3 US cents. Hubco is understood to be preparing an appeal against the verdict. Privately, its management said that the company would not be profitable if it was to accept the new rates.

The police action against the Hub power site has so far been the toughest official measure to step up the pressure. Privately, business sources say that it is likely to hurt investor confidence both in the port and direct investments into Pakistan.

These problems are generating growing alarm among some western observers.

David Asher and Andrew Smithers, two UK economists, for example, concluded from recent research that the FILP programme was highly wasteful and held huge bad debts. "Without comprehensive reform the collapse of the FILP house of cards could occur as soon as the dawn of the 21st century," they warned.

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UK seeks pledges on power employees in Pakistan

By Farhan Sardar in Islamabad

The British High Commission in Pakistan said yesterday that it would seek fresh assurances from local authorities to ensure the safety of British employees working at the Hub power station outside Karachi, the southern port city.

The spokesman added that

a blockade of the plant site by the local police had ended following protests by the High Commission. A number of businessmen had also criticised the move. Last week, the Pakistani police surrounded the 1,222MW thermal power plant, and stopped all of its 36 British staff and their nine spouses from leaving the site. The

company's owners including Britain's National Power.

No clear explanation has been given by local authorities, though businessmen say the action was probably driven by the government's determination to get tough with Pakistan's 21 private power producers.

The government said the power companies, including

Hub Power Company (Hubco), were promised high tariffs by the former government of Benazir Bhutto, who announced a new power generation policy in 1994 to attract fresh investments.

Under that policy, the state-run Water and Power Development Authority (Wapda) is obliged to buy at least 60 per cent of the electricity generated by each power plant.

They submitted a motion challenging the definition of an "emergency", and sought to have the decree declared unconstitutional.

The swift ruling by the Constitutional Court was a

victory for the government of Chuan Leekpai, but also exposed its vulnerability. Its slim margin in parliament allowed the opposition motion to be submitted and accepted.

The attacks on the government for "bailing out the rich" also took some lustre off Mr Chuan's generally popular government.

Meanwhile there was intense lobbying while the decrees were being considered to woo key coalition member Chart Thai over to the opposition.

This move would have resulted in a new government led by former prime minister Banharn Silpa-archa.

Chuan Leekpai's ruling by the Constitutional Court was a victory for his government.

THAI CONSTITUTIONAL COURT SWIFT RULING PAVES WAY FOR DECREES TO HELP RESTORE LIQUIDITY TO ECONOMY

Japan's
postal
Savings
System faces loss

THE AMERICAS

Microsoft bonanza for lawyers

Richard Wolfe
and Louise Kehoe
report on the rich
pickings for law
firms and lobbyists

The hearing lasted little more than an hour, but it represented the start of almost a lifetime's earnings for lawyers and lobbyists alike in Washington.

As Microsoft and the US government – plus 20 states – faced each other in court for the first time in their landmark antitrust battle last week, at least 14 attorneys sat in front of Judge Thomas Penfield Jackson. Behind them – at the head offices of Microsoft, the Justice Department and state attorneys general – hundreds of lawyers, consultants and strategists were preparing for the biggest antitrust action in two decades.

The case is running into the "PR and Law Relief Act," joked one of the people involved in the lobbying efforts.

The states alone have 20

attorneys assigned full-time to the case. For its part, the Justice Department has hired David Boies, a leading trial lawyer, to lead its courtroom battle. Mr Boies has reportedly halved his usual fee of \$550 an hour to handle the high-profile case.

To the outside world, the case may seem to revolve around the struggle between Microsoft, the world's largest software company, and Netscape Communications, its rival in internet software. But to Washington, the case looks rather different.

"Netscape is the direct beneficiary of this case, but the indirect and real beneficiaries are the lawyers and I am one of them," said Charles "Rick" Rule, a consultant to Microsoft and a former head of the antitrust division under the Reagan administration. "When I was at the Justice Department, we wanted to make the law clear so that businessmen and women in this country could understand it without having lawyers like me being paid inordinate amounts to explain the law."

"Antitrust lawyers went

out of business and into other things like environmental law. But when this case was launched, around town you could hear the champagne corks popping from all the law offices and antitrust lawyers."

Microsoft has boosted its in-house legal team to more than 100 lawyers at head office, according to Brad Smith, general counsel for the company.

Outside Seattle, it has also been quick to boost its representation in Washington over the last two years. "We have been active in Washington DC on software issues like encryption," said Mr Smith. "But we have not been as active as we might have been in talking just about Microsoft. Instead we have been talking about the benefits of the software industry as a whole."

According to the non-partisan Centre for Responsive Politics, Microsoft has substantially increased its political spending in Washington over the last three election cycles. In 1988-94, the company ranked eighth among computer companies, spending

just \$106,484 on campaign funds and individual contributions.

In the current election year, it ranks top of the industry, almost tripling its donations to \$268,218. That compares well with Netscape Communications, which gave no money five years ago and spent just \$34,449 in the current election year.

Microsoft's political tactics are also remarkable within the industry. Oracle, the second largest donor, gave more than 90 per cent of its \$217,913 to the Democrats, just as Microsoft did in 1992. Since then Microsoft has reversed political leanings.

Two thirds of its current spending goes to Republicans, including \$99,000 of free computer software donated on March 31. While such figures may be small compared with the size and wealth of Microsoft, they do not include substantial recent donations such as the \$100,000 contribution to the Republican National Committee last month.

Bill Gates, chairman and chief executive of Microsoft, has personally donated cash



Haley Barbour (left) and Bob Dole: leaders among lobbyists

to just two senators. John McCain, the Republican chairman of the commerce committee, was flown to the west coast for a private demonstration of high-definition television, which Microsoft wants to supply with a compact version of its Windows operating software. The other senator, Patrick Leahy, is the senior Democrat on the judiciary committee, which staged the high-profile hearings into antitrust allegations against Microsoft earlier this year.

Gateway to opportunities on the Internet, Page 10

Ortega retains party post

By James Wilson in Managua

Daniel Ortega and Tomas Borge, the old guard of Nicaragua's Sandinista leadership, were re-elected over the weekend to posts in a setback for reformers and an indication of the slow pace of change in the movement.

As expected, loyal *sandista* delegates to a national congress of the Sandinista Front for National Liberation (FSLN) rallied round Mr Ortega, who has been buffered in recent months by his stepdaughter's allegations that he sexually abused her. Mr Ortega received a rousing reception and was re-elected unopposed as the party's secretary-general.

But Mr Borge, one of the Sandinista's founding fathers, had to overcome a challenge from Victor Hugo Tinoco, the leader of the FSLN's grouping in the Nicaraguan national assembly, to remain as Mr Ortega's deputy.

Mr Tinoco, who lost by 22 votes to 199, said afterwards: "Change will be a slow process and we have gone forward a significant amount."

There were a more prosaic interpretation by Hatuey De Campa, secretary general of the Revolutionary party. "This was a victory in homage to the memory of Jose Francisco Peda Gomez."

In the remaining two years of his term, the president will be trying to maintain the relatively robust growth in the Dominican economy, which expanded 8.2 per cent last year, following expansion of 7.3 per cent in 1996.

Last year's performance was the best for the economy in the 1990s, said the central bank.

Growth in construction, tourism, telecoms, and exports from free trade zones should expand by up to 7 per cent a year over the next three years, said John Panzer, a senior World Bank economist responsible for the Dominican Republic.

"The key to the future growth is the success of efforts to open up the economy, and there have been positive signs with the recent trade treaty between the Dominican Republic and Central American countries," Mr Panzer said.

Despite the structure of the new Congress, the country is not troubled by differing ideological positions, so there is no question about the direction in which it should be going. If the reforms the president seeks are implemented, the economy could grow by between 8 and 9 per cent a year."

This will be of some comfort to President Fernandez as he tries to emerge from Mr Peda Gomez's shadow.

Checchi loses ground in California

By Christopher Parkes
in Los Angeles

Al Checchi, the would-be governor of California who has spent almost \$40m on his preliminary campaign, has crashed in the popularity poll.

His aggression towards fellow Democrats seeking nomination in the June 2 primary has more than halved his support among likely voters, and left him trailing the field, according to samplings by the Los Angeles Times.

Only 10 per cent of those who consider themselves "likely voters" say they will support him next month, compared with his 22 per cent backing of a month ago.

The main beneficiaries of Mr Checchi's critical television commercials have been the Democrats underdog of a month ago, Gray Davis, and Dan Lungren, the leading Republican.

Mr Davis, second-in-command to governor Pete Wilson, has seen his support among likely voters climb from 13 per cent to 28 per cent, while Mr Lungren claims 37 per cent compared with 28 per cent last time.

The volatility of popular opinion has also been heightened this time by the introduction of the open primary system, under which voters – regardless of their party affiliation – may for the first time vote for any of the primary candidates.

However, polls suggest Mr Checchi's onslaught on his Democratic competitors has rebounded on him in the past few weeks, especially since Mr Davis has increased his spending on television commercials.

Mr Davis has spent about \$7m of donated money compared with Mr Checchi's record-breaking tally from his own resources. Mr Lungren, attorney-general, who also relies on donors, has \$2.4m left in his reserves after spending \$4.6m so far.

Posthumous revenge on Dominican Republic's political leaders

Electors deal a blow to remaining party chiefs after the death of Jose Francisco Peña Gómez. Canute James reports

He is not around to celebrate, but the late Jose Francisco Peña Gómez has taken costly revenge on two of the Dominican Republic's leading politicians who conspired to keep him out of the presidential palace.

Official results on Friday showed that the social democrat Revolutionary party of Mr Peña Gómez, who died a fortnight ago from cancer, had handsomely won legislative and municipal elections and taken control of Congress and most municipalities.

The result is a setback for President Leonel Fernández's centrist Liberation party, which came a distant second, leaving him short of the seats he needs to veto congressional decisions. The conservative Social Christian Reform party of Joaquín Balaguer, a nonagenarian

former president, was third, suggesting an end to his 30 years of influence on Dominican politics, and to his reported plans to stand for the presidency in 2000.

Two years ago Mr Peña Gómez appeared on the verge of success in his third bid for the presidency of the Caribbean state of 8m people which shares the island of Hispaniola with Haiti.

In the first round of voting, he came out ahead of Mr Fernández, with the candidate of Mr Balaguer's party third. Claiming that Mr Peña Gómez was "not representative of the Dominican people", Mr Balaguer threw his support behind Mr Fernández in the second round, and successfully kept Mr Peña Gómez out of office. International observers concluded that extensive fraud contributed to earlier elec-

tions which Mr Peña Gómez lost to Mr Balaguer.

With their support lifted

by a tide of sympathy votes,

Revolutionary party legislators will present a serious obstacle to President Fernández.

But he faces a more intrac-

table problem in his efforts to amend the constitution to allow presidents to have a second consecutive term. The performance of his party this month may have damped his enthusiasm for such a change.

Mr Fernández has taken a philosophical attitude. "The elections contribute to the promotion of a more diverse political leadership in the sense that now the congress-

ional candidates are not tied to the presidential candidates," he said.

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POWER SHARING JUNE 25 POLL WILL DETERMINE COMPOSITION OF THE NEW FORUM

Battle starts for seats in new assembly

By John Murray Brown and Jimmy Burns in Belfast

Today will see the launch of what promises to be the most hotly contested election campaign in Northern Ireland's history as unionists and nationalists – for and against the agreement – battle for seats in a new power sharing assembly.

The results of the poll on June 25 will be critical and will determine not just the composition of the new assembly but party strengths in the new Northern Ireland executive, which will be composed of a chief executive – effectively a

Northern Ireland prime minister – a deputy and 10 officers.

Predictions are hard to make. The election will be by a system of proportional representation, based on the 18 existing constituencies, each returning six members – 10 in total, 48 more than Wales and 21 fewer than the new Scottish parliament.

The model will require voters to indicate their first choice and any number of preferences – a system familiar to voters in the Irish Republic.

The expected split in the executive is six unionist and six nationalist. But within

those traditional blocks, there is likely to be fierce competition. There are suggestions of vote transfers across the traditional sectarian divide – an unprecedented development and a further spin-off from Friday's historic referendum vote, which for the first time saw Roman Catholics and Protestants voting on the same side.

Many of the 71 per cent of voters who supported the agreement on Friday would probably not have turned out in a normal election and they may be hard to mobilise again. On the other hand, some of the 29 per cent who

sided with Ian Paisley's around 70 per cent of the nationalist vote. That slipped to 60 per cent in the 1997 general election and 55 per cent in the subsequent local government elections.

They may have misgivings about voting for DUP candidates in the assembly elections. A vote for Bob McCartney's UK Unionist party, the other main No grouping, would be wasted in most constituencies.

Some recent opinion polls suggest the SDLP, arguably the main architect of the agreement, may stem the fall in its share of the nationalist vote in this election. In the 1992 election, the SDLP took

The referendum result throws little light on the likely outcome of the assembly elections, although Sydney Elliott, an expert on electoral models, and lecturer at Queen's University in Belfast, has extrapolated the results of elections to project likely party strengths.

His analysis gives the Ulster Unionists 39, the Social Democratic and Labour party 24, Sinn Féin 16, the Democratic Unionists 15, the cross-community Alliance party nine, with the UK Unionists of Bob McCartney and the loyalist Progressive Unionists two each.

LEGISLATION

Bills to be published prior to elections

By David Wighton, Political Correspondent

The UK government plans to publish all the legislation required to implement the Northern Ireland agreement before elections to the proposed assembly on June 25 in an effort to bolster support for David Trimble, leader of the pro-British Ulster Unionists, the biggest party in the region.

Tony Blair, the UK prime minister, has also urged ministers from all departments to visit Northern Ireland to underline the government's commitment to the "normalisation" of politics there.

Mr Blair, who will visit within the next few days, wants to persuade unionist voters in the assembly elections to back candidates committed to making the agreement work.

Mo Mowlam, the chief Northern Ireland minister in the UK government, said she hoped the electorate would back candidates who supported the agreement. But ministers have been told to avoid any impression of supporting particular candidates, which may prove counter-productive, if not illegal.

The UK's opposition Conservatives have also ruled out supporting specific candidates. But Andrew Mackay, their Northern Ireland spokesman, said he hoped voters would back Yes candidates or "responsible" members of the No campaign committed to making the agreement work.

Mr Blair sought to reassure wavering unionists in the run-up to the referendum by pledging that safeguards in the agreement would be enshrined in the legislation.

Mr Blair's office confirmed that the government was hoping to publish all the legislation before the elections.

However, the difficulty of the task facing ministers was underlined by comments from leading Northern Ireland politicians. Martin Smyth, one of the Ulster Unionist MPs who backed a No vote, said Mr Blair was committed to ensuring that the legislation would not allow politicians even indirectly associated with paramilitaries to take positions in the assembly's executive without decommissioning weapons. Gerry Adams, president of Sinn Féin, political wing of the Irish Republican Army, said there must be "no pre-conditions" for the party's involvement in the assembly.

Throughout Europe, the study identified a large gap between the importance placed on patents in theory and the way they were managed in practice. "This can lead to massive patent litigation costs and wasted research and development expenditure – both potentially fatal not only to small and medium-sized enterprises but also large corporations," it said.

More than seven in 10 of the companies surveyed admitted they had wasted R&D expenditure through patent mismanagement. At some stage, they had embarked on R&D work without realising that the work under development was already protected by a competitor's patent. Eight out of 10 companies surveyed had been involved in patent litigation at some time. Vanessa Houlder, London

JAPANESE VISIT

Akihito arrives in Britain

Emperor Akihito of Japan arrives in Britain today, at the start of an official visit that is likely to be overshadowed by protests from British veterans of the second world war.

Both countries hope the visit will help cement diplomatic relations and bolster trade links. But Japanese embassy officials are braced for the awkward sight of war veterans turning their back on the emperor tomorrow as he travels down the Mall, in London, to Buckingham Palace.

The veterans are demanding a fuller apology for their treatment in prison of war camps than that offered last January by Ryutaro Hashimoto, the Japanese prime minister, as well as compensation.

But the Foreign Office has warned the veterans that no further concessions are likely from Tokyo, and has urged them to show respect to the emperor. George Parker, London

FRAUD

Investors bear cost of litigation

Investors have borne the brunt of a big increase in the cost of big fraud cases, according to a report out today.

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Although the number of cases was down on the 74 recorded in the previous year, the cost of the frauds jumped by 217 per cent from £25m in 1996.

The banking and financial sector suffered the most frauds last with 18 cases worth more than £100,000.

PARAMILITARIES

Extremists will find process hard to disrupt

By Jimmy Burns

For extremists bent on violence, the huge majority for a peaceful settlement in the referendums north and south of the Irish border counts for nothing. But as long as the leadership of the Irish Republican Army maintains its ceasefire, they will find it difficult to disrupt the political process.

While insisting there was no room for complacency, security officials on both sides of the border were sanguine about the short-term threat yesterday after frustrating a small number of terrorist actions over the weekend. The latest incident was a bomb threat yesterday afternoon in the city of Armagh, only hours after a security alert near Lurgan, where police came across a small bomb on the railway.

Twenty-four hours earlier – while some former paramilitaries were declaring the "war" over after backing the successful Yes campaign – police in the Irish republic intercepted two cars on their way north near the border town of Dundalk. They were carrying equipment to make enough bombs to cause considerable destruction. Other incidents included a home-made device on a railway track near Belfast, the Northern Ireland capital, on Saturday.

The bulk of incidents are believed to be the work of dissident republicans opposed to the Good Friday Agreement.

The Loyalist Volunteer Force – which unlike the bigger Ulster Volunteer Force is opposed to the settlement – declared a ceasefire during the referendum

campaign. The move was thought to be partly tactical as the LVF leadership is thought to be reluctant to be left out of the planned release of prisoners. The government has said that those not abiding by the ceasefire will not be released under the agreement.

Within republican ranks, the issue of prisoners is also regarded as critical. But dissidents are focusing on a strategy of military opposition to the overall settlement because they believe it consolidates partition and postpones the republican ideal of a united Ireland.

Irish officials believe this view is not shared by a majority in Sinn Féin, the political wing of the IRA, or the IRA's controlling army council, which explains why the ceasefire has been maintained.

Republicans backing the Good Friday agreement see it as a "transitional" stage to a united Ireland. Despite the renunciation of the republican territorial claim to Northern Ireland their interpretation is that both referendum results have unlocked a political dynamic which in the long term will lead to a united Ireland.

Sinn Féin officials suggested that they and the IRA will remain on the peace train as long as it delivers an agenda which includes equality and demilitarisation involving the Royal Ulster Constabulary (the Northern Ireland police force) and the British army.

But this has brought little comfort to security officials and unionists seeking clearer signs that the IRA is ready to hand over its weapons and renounce violence.

IRISH REPUBLIC

Historic consensus paves way for change

By John Murray Brown

The referendum in Northern Ireland stirred deep divisions. But there was an unusual consensus south of the border, where all the main parties backed the deal and the constitutional changes, with the result that the proposals were approved by a staggering 94 per cent of those who voted.

The lack of debate on the deal probably explains the turnout, which was lower than 58 per cent, than in Northern Ireland and less than in recent referendums on divorce and abortion.

The outcome is, nonetheless, a triumph for Bertie Ahern, the Fianna Fail prime minister, who after displaying little interest in the "northern question" for much of his political career has shown a sure hand and even won the begrudging admiration of many unionists for his even-handedness in the negotiations.

Fianna Fail, which describes itself officially as "the republican party", is probably the only party with the authority to drop the claim to Northern Ireland contained in the 1937 constitution. This was drafted by

Eamon de Valera, the party's founder, who led republican opposition to the partition of Ireland in the 1920s.

If the other main Irish party, Fine Gael, had been in power, it might have found it difficult to ignore sniping from Fianna Fail MPs on the opposition benches. Fine Gael is descended from the republican forces who accepted partition.

Maurice Manning, the historian and Irish senator, has pointed out that this is the first time that Fianna Fail and Fine Gael – which were on opposite sides in the civil war after partition – have

agreed on Northern Ireland. As a result, the sterile divisions of the past – with Fianna Fail being more inclined to support Sinn Féin while Fine Gael has been more sympathetic to unionists – may soon be a thing of the past.

The wider implications for British-Irish relations are considerable. The deal paves the way for a British-Irish council – encompassing representatives from the Dail – the Republic's parliament – the new northern assembly, Westminster and the devolved parliaments of Wales and Scotland.

Nevertheless, the days when Mr Paisley could bring thousands of demonstrators out on the streets have gone.

NEWS DIGEST

ELECTRICITY SUPPLY

Power groups in call for end to merger plans

Electricity supply companies will ask the government to throw out proposals put forward by the industry's regulator that would force them to split some of their businesses into separate companies.

The groups say the proposals would require them to introduce separate information technology, management and control systems that could cost at least £500m (£335m) – the equivalent of £20 on each domestic electricity bill.

The Electricity Association, representing the 14 English, Scottish and Welsh electricity supply companies, says it will write this week to John Battle, energy minister, asking him to reject the regulator's plan.

Regional electricity companies, as well as selling power to customers, also receive a fee for running the local network through which electricity is transmitted. The government has proposed that the supply and distribution businesses should be separated and operated under different licences. Andrew Taylor, London

DIGITAL TELEVISION

Channel 4 woos partners

Channel 4, one of the UK's two main terrestrial commercial television services, is holding talks with potential partners about a film service to be launched this year on digital television. It plans to set up a subscription film channel and is hoping that one or more high-profile media companies may become partners in the venture, possibly taking a stake.

Those thought to have been approached include British Sky Broadcasting, the satellite operator, British Digital Broadcasting, the pay-TV company owned by Carlton Communications and Granada Group, PolyGram, the music and film company that Seagram agreed to acquire at the end of last week, and UKTV, the joint venture between Flextech and the BBC.

Cathy Newman, London

POLLUTION

Vehicles fail emissions tests

One in five vehicles on Britain's roads cannot meet the government's standards for exhaust emissions, according to the result of a compulsory testing scheme launched in selected towns at the start of this year.

The tests have prompted the government to offer free vehicle exhaust tests to motorists in the seven towns which took part in the pilot programme and in Belfast, and to consider extending compulsory testing throughout the country.

This marks an intensification of the government's efforts to reduce vehicle emissions to meet internationally agreed targets.

LLOYD'S OF LONDON

Funding reforms approved

Lloyd's of London has approved controversial reforms that will speed up its transformation into an insurance market backed by permanent capital.

It is allowing underwriting agents to strike bilateral deals with independent capital providers when buying in control of the insurance syndicates they manage. The move may accelerate the decline of Names, individuals who have traditionally backed Lloyd's, because it will make it easier in annual capacity auctions to trade the right to support big chunks of business.

However, more far-reaching steps, such as imposing a time limit on future participation by Names, appear for the moment unlikely.

The latest reforms will allow underwriting agents to negotiate the purchase of syndicate capacity in parallel with the forthcoming auctions, of which there will be six this year beginning in July. A minimum of £250,000 (\$417,500) of capacity will have to be traded in a bilateral deal, compared with £1,000 blocks in auctions. Christopher Adams, London

INTELLECTUAL PROPERTY

UK lags behind rest of Europe

UK companies lag behind their counterparts in the rest of Europe in managing intellectual property and patents, according to research published today.

Senior managers in the UK are less likely than those from the rest of Europe to understand the role of patents, operate corporate patent policies and run regular audits according to the study of 360 European companies.

Throughout Europe, the study identified a large gap between the importance placed on patents in theory and the way they were managed in practice. "This can lead to massive patent litigation costs and wasted research and development expenditure – both potentially fatal not only to small and medium-sized enterprises but also large corporations," it said.

More than seven in 10 of the companies surveyed admitted they had wasted R&D expenditure through patent mismanagement. At some stage, they had embarked on R&D work without realising that the work under development was already protected by a competitor's patent. Eight out of 10 companies surveyed had been involved in patent litigation at some time. Vanessa Houlder, London

JAPANESE VISIT

Akihito arrives in Britain

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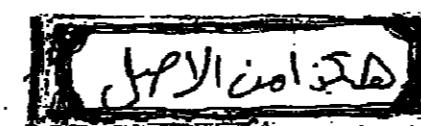
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Drain Germany

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INSIDE TRACK

PROFILE MARCEL OSPEL

Premier league player

The head of the soon-to-be merged SBC and UBS talks to William Hall and Clay Harris

If Marcel Ospel were running Basle's football club rather than Swiss Bank Corporation, the city's biggest bank, his reputation would be under serious pressure. His favourite football club, headed by an old school chum, is struggling to avoid relegation, whereas Mr Ospel, 48, is about to win promotion to the world's premier banking league as chief executive of the soon-to-be merged SBC and Union Bank of Switzerland.

The new UBS will be the world's fifth-biggest bank with a market capitalisation of \$70bn (£42bn). It will rank number one in the highly profitable business of private banking, and will own the world's fourth-biggest institutional asset manager. Its Warburg Dillon Read subsidiary is already Europe's premier investment bank and wants to rank among the world's top five truly international investment banks.

The merger has cleared all but one regulatory hurdle and is on course to be completed in June. "It is very important that we get US approval quickly, then we can reap the benefits of an accelerated merger process," says Mr Ospel, against the background rumble of trams passing his office in SBC's former headquarters, now its main Basle branch.

By 2002, the new UBS, with Mr Ospel at helm, aims to have more than doubled its long-term average return on equity to between 15 per cent and 20 per cent.

The 25 per cent rise in UBS's share price since the merger was announced last December is testimony to the stock market's belief in Mr Ospel's ability to deliver on his promises.

Seven years ago it was a very different story. SBC was the weakest of the big three Swiss banks. Its management record had been tarnished by its over-involvement in lending to Werner K. Rey, the fugitive Swiss financier, whose Onnai empire collapsed with debts of SF3.5bn (£1.2bn) in 1991.

The fact that SBC has rebounded and achieved a thinly disguised reverse takeover of UBS, Switzerland's biggest bank, is largely down to Mr Ospel. He has been running SBC for only two years but his role in its rejuvenation goes back much longer.

His first coup was the creeping acquisition of O'Connor, a young high-tech Chicago derivatives firm - a process that started in 1989 and was completed in 1994.

Mr Ospel had to persuade not only SBC's top management of the benefits of merging the unknown O'Connor with SBC's foreign exchange and money market activities, but also O'Connor's 22 partners that a future career in a Swiss bank need not be dull.

He was certainly right on that score. Between 1990 and 1993, O'Connor helped to increase SBC's trading profits fivefold to SF2.5bn. However, a year later they had dropped below SF1bn. But by then O'Connor's derivatives wizards had become so integrated inside SBC that there was no turning back and today ex-O'Connor partners, such as David Solo, 33, and Andy Siciliano, 37, are members of Mr Ospel's inner circle.

Their rapid rise up one of the ways that Mr Ospel has transformed the culture of the smallest of the big three Swiss banks. Apart from Hans de Gier, a 53-year-old Dutchman heading Warburg Dillon Read, whose career at SBC has shadowed Mr Ospel's, almost all of his top management are outsiders. Rudi Bogni, 50, the Italian head of private banking, is an ex-Chase Manhattan banker; Gary Brinson, 54, head of asset management, is a US multi-millionaire who sold his business for \$75m to SBC in 1985; Peter Wuffli, the 40-year-old chief financial officer, is an ex-McKinsey management consultant; and Thomas Escher, 49, head of information technology, came from IBM two years ago.

Mr Ospel's other great skill is integrating new businesses. He has overseen four important moves since 1992: O'Connor, Brinson, S.G. Warburg and most recently Dillon Read. He has a reputation for speed and, as UBS's executives have found to their cost, he feels no need to share out debts evenhandedly. As a result, the only area where the old UBS managers have any real power is in the one division that is never going to be a world-class business: domestic Swiss banking.

In an industry where egos play a big role in decision-making, Mr Ospel is remarkably unpretentious. SBC's bargain-basement takeover of S.G. Warburg, the former high-flying UK merchant bank that was left in the lurch after an ill-fated courtship with Morgan Stanley, was clinched because Warburg's prima donna liked Mr Ospel. The fact that hardly any of them occupy positions of power in the new UBS speaks volumes about his ruthlessness.

Nevertheless, his record in building shareholder value at SBC is not quite as spotless as his well-oiled public relations machine portrays. That is history, however, and Mr Ospel and his team will be running the show when the merger gets the final go-ahead from the US authorities. Given Mr Ospel's record, most analysts believe that the SF3.5bn of cost-savings will probably be squeezed out of the group ahead of schedule.



THE ESSENTIAL GUIDE TO MARCEL OSPER

Early life: born February 8, 1950, in working class district of Basle. Left school at 16, worked in private banks in Basle, Geneva and London, before returning to Basle's school of economics and business administration. Does not have same cache as St Gallen university, but the Swiss are less snooty about these things than the British.

Career: joined Swiss Bank Corporation's central planning department in 1977. Sent to London as bond salesman, and then New York, where poached by Merrill Lynch in 1985. After two years SBC poached him back to head securities trading in Zurich and he has never looked

back. Chief executive since May 1996. Current life: much more international than previous SBC chief executives. Refuses outside directorships because of worries about conflicts of interest. May have damaged long-term chances of joining the great and the good by disbanding SBC's council of international advisers, a talking shop of globetrotting big-wigs headed by Sir David Scholey.

Social life: kept under lock and key. Married (second) into a well-connected, old Basle family. Hobbies: modern painting, opera, golf and walking the dog. Only apparent vice is cigarettes. Lets off steam

once a year at 4am in early March when he is to be found dressed as a devil with flashing red horns and banging a drum with one of the more exotic cliques in Basle's annual carnival. Long-term goal: hard to believe there will be two Swiss banks among the world's top 10 in the long term. The smart money remains on Mr Ospel winning the final place at the top table. But Lukas Mühlmann, 47, Credit Suisse's McKinsey-trained chief executive could threaten Mr Ospel's image as Switzerland's most successful banker if he sticks around long enough.

SBC shareholders' funds on the eve of the merger are lower than they were at the start of the decade, explaining why its return on equity looks so much better than UBS's. Its investment banking division earned far less than UBS in 1997, even though it had more staff.

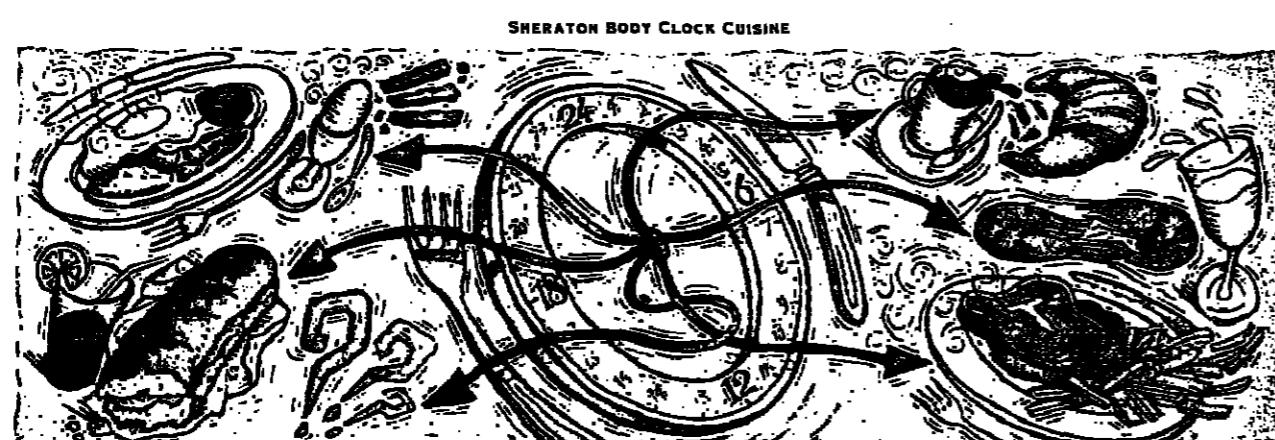
The return on assets under management of its much-vaunted Brinson fund management business was the lowest of the Swiss big three, and the profitability of its private banking operation lagged those of UBS.

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"We are determined to build our US business but have no ambition to become a domestic bulge bracket [top tier] player in investment banking at this point in time," Mr Ospel says.

Investment banking is the one area that urgently needs attention. Not only must Mr Ospel improve the profitability of UBS's second-biggest business, but he must also strengthen its position in North America where it lacks critical mass.

As for consolidation in Europe, Mr Ospel is surprised that there have not been more deals like the SBC-UBS merger, which sent a shiver through continental rivals after its announcement. He is convinced that consolidation will accelerate across Europe and "then obviously the next thing will be transatlantic deals".



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LUCY KELLAWAY

Steer clear of the morality minefield

Companies have a business responsibility to ensure family life works. Morality has nothing to do with it and neither should it

"Employers have a *moral* responsibility to ensure family life works," Discuss.

On Thursday, childcare activists will descend on the Millbank Tower in London to debate this issue. No prizes for guessing which side most of them will be on. In the name of stakeholding, they will surely say that companies have a moral duty to their employees which, in turn, implies that they have some kind of moral duty to their families.

In real life, it is not like that at all. Companies exist to make money. They should be good to their employees because if they are not no one will want to work for them. They should offer family friendly policies for exactly the same reason.

That is to say, most employers have a *business* responsibility to ensure family life works. If they employ people with families, but do not recognise their needs, then their competitors will and they will lose out.

Companies should also behave in a decent way to their workers not simply for the sake of it, but for the company's own reputation. Now that ethical business is the thing, any company that is seen to be doing anything even slightly wrong - which includes being hard on their staff - will shortly get a bad name, and that will not help them sell their products.

Morality has nothing to do with it, and neither should it. The idea that our employers have a moral interest in us or our families, is repugnant. We are grown-ups and we run our private lives as we see fit.

In any case, anyone who argues that employers have a moral interest in employees' childcare arrangements may find the argument coming back to bite them. If we allow companies to be morally responsible, then surely we should allow them to pick

their own morals. What happens if companies take the view that the best thing for children is to be brought up by their mothers? Then presumably the morally motivated employer would be excused if they never employed women with young children and discouraged new mothers from returning to work. The

whole point of the box

(which box, I wonder?) once we have mastered triangular thought we will be on the way to those breakthroughs.

Corporate America loves this book - that is if you believe that the glowing endorsements on all books these days offer any proof that the person in question has actually read it. "Wow!" gushes the chief executive of Burger King, while the chief executive of Saatchi and Saatchi says: "Great Sunday night reading... made me want to run into it."

I must say I am struggling a bit, and the tips offered by O'Reefie are not helping. "Take time to 'get on fire', to help charge yourself up so you will be able to break out of the box of incrementalism and aim for step-change goals," he recommends. I can see no smoke - my own personal cranial computer is just not up to it.

There is a lot to be said for casual clothes, but it has nothing to do with individuality or fun. It is simply that chinos are cheaper and don't require so much dry cleaning. You get up each morning, throw on your clothes and off you go.

Still on the subject of P&G. I have been reading *Business Beyond the Box*, an extraordinary volume written by another John at the top of P&G. John O'Reefie, group vice-president, has been spending all his spare time in hotels and aircraft writing this book to help us achieve "breakthrough results" both personally and at work. Our minds, he says, are brilliant cranial computers. The trouble is that we don't

AT THE WEEKENDS I LIKE TO SLIP INTO A BLUE THREE-PIECE AND TIE AND JUST HANG OUT



BUSINESS TRAVEL FLYING

How to jettison fear

Farrol Kahn looks at the treatments available to fight aerophobia

A recent incident in which a businessman ran amok on a British Airways flight and had to be handcuffed, could be less a case of drunkenness than of aerophobia, says Dr Bergau.

Investigation reveals extreme fears. The worst cases involve panic attacks, says Dr Bergau. This physiological reaction goes hand-in-hand with psychological anxieties of being helpless.

Frequent flyers get accustomed to these anxieties and know how to cope with them.

But there are times when even seasoned flyers crack.

Flight attendants on Delta Air Lines are trained to recognise signs of aerophobia among business people to prevent incidents from getting out of hand. "There are four main symptoms," says Dave Campbell, general manager of the airline.

They are manifested when a passenger is short and curt, angry, withdrawn or drinking too much. Our job is to find out and turn them around.

"Sometimes we can dispel their fears by mentioning that they took a greater risk by travelling to the airport than by flying. But generally, we relate to them. Ask

them about their family and children."

Clinically, aerophobia is complex as about six types of distorted thinking have been identified. Claustrophobia, panic-related anxiety, space phobia or fear of being surrounded by nothingness, terror of crashing and of heights, and post-traumatic fears are all part of this perplexing condition.

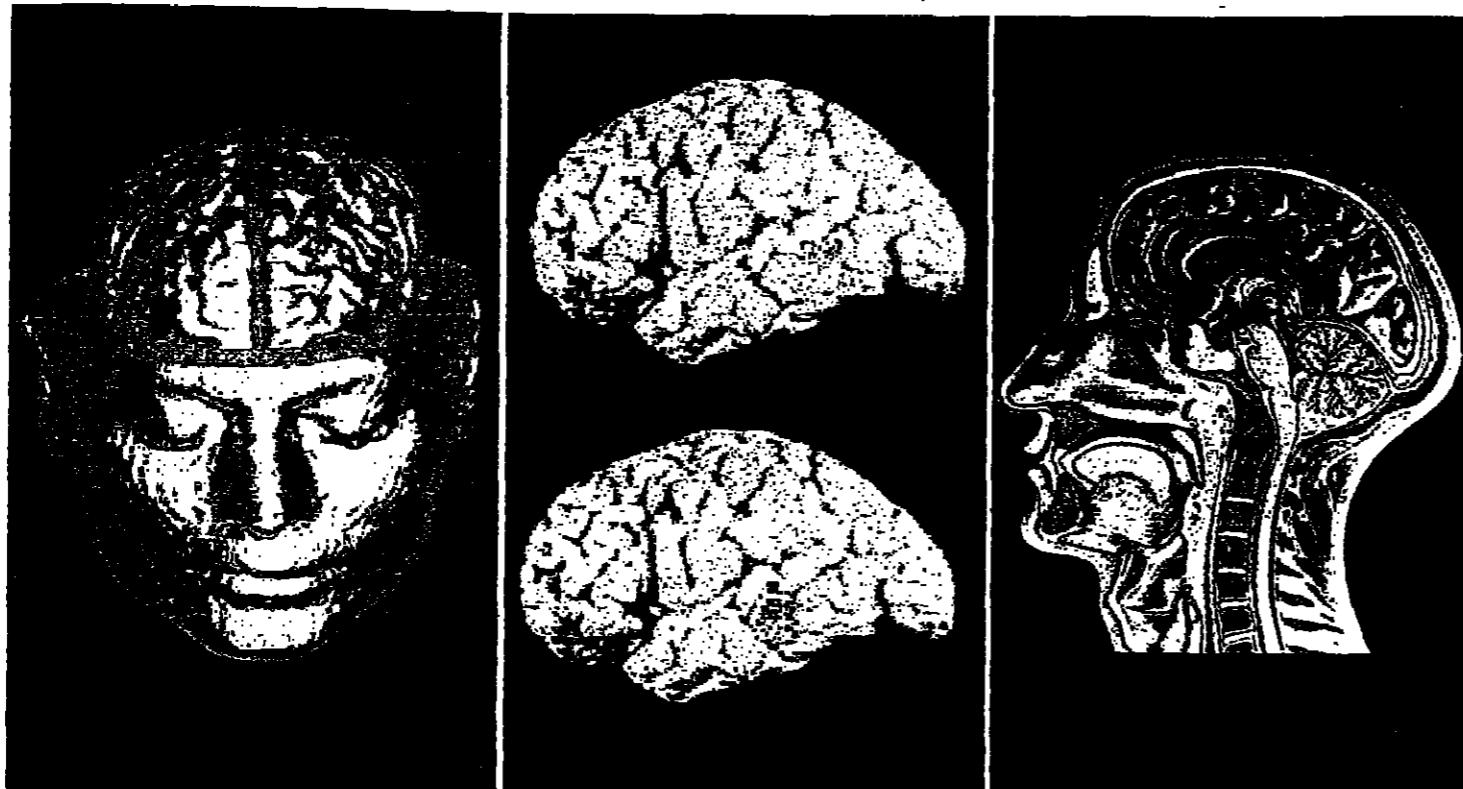
When it comes to solutions, there are as numerous as there are flyers.

A popular treatment is called cognitive behaviourism. This approach involves confronting people with the unreasonableness of their fears while exposing them to relaxation techniques.

The most promising treatment for aerophobia is Eye Movement Desensitisation and Reprocessing, which has been used for a decade to overcome anxieties, stress and depression. Through the movement of one's eyes side to side, negative feelings can be dissipated.

The author is director of the Oxford-based Aviation Health Institute.

INSIDE TRACK



Head start from left, 3-D computed tomography scan; positron emission tomography; magnetic resonance image

RALPH ATKINS
FILE FROM MUNICH**Bavaria flirts with 'zero tolerance'**

Elections are imminent and the southern German state is adopting a hard line on lawlessness. But its reaction has several ugly and disquieting aspects

The security camera above the door is like a carbuncle. It is hardly an original feature on the Munich concert hall constructed in the 1920s by Leo von Klenze, *Baumeister* to King Ludwig I of Bavaria. But the electronic eye is an apt emblem for today's inhabitant of the sun-yellow building embellished with white columns - the Bavarian ministry of the interior.

This may be among the most affluent quarters of Germany (next door to the ministry is a Gianni Versace shop for those grown rich on the state's auto, engineering and electronics industries).

Bavaria also boasts one of Germany's lowest crime rates, with 5,616 offences per 100,000 inhabitants last year, and the highest clear-up rate at 64.3 per cent of cases. Yet, at least as far as crime policy goes, the conservative southern state is distinctly edgy.

A "security initiative" announced this month by Edmund Stoiber, Bavaria's prime minister, and Günter Beckstein, interior minister, has ratcheted up their hardline political rhetoric and proposes a series of measures which would break new ground in post-war Germany.

And the clarity and power of ultrasound images to distinguish between different types of tissue is, according to ultrasound equipment makers such as Seattle's ATL, allowing ultrasonographers to do some of the work previously allocated to CT and MRI specialists.

Secondly, radiologists are increasingly making use of contrast agents in CT, MRI and ultrasound. These chemicals increase image clarity.

They have been around for a long time: it is a standard in plain film X-rays for patients to swallow barium compounds that block the X-ray so that the picture shows the digestive tract clearly. New contrast agents may show various structures within the body more clearly.

In fact, one of the dangers of all these changes is the proliferation of let's-have-a-look-imaging that would not affect the subsequent treatment of the patient whatever it showed, especially in the US, where many doctors are paid extra for doing more tests.

Dr Weir says this is part of a process in which the way doctors see a patient as "my patient" is changing to one whereby the patient is the focus of treatment.

Other developments are also strengthening the position of radiologists.

First, the machinery and techniques that they are using are rapidly becoming much more powerful for several reasons.

MRI, CT and ultrasound

all rely on computers to turn

electrical signals into images.

As computers become more powerful, so does the machinery.

Some CT scanners, such as those from US company Imatron, are now so fast they can follow motion in real time, in a similar fashion to ultrasound using scalopes.

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First, the machinery and techniques that they are using are rapidly becoming much more powerful for several reasons.

MRI, CT and ultrasound

all rely on computers to turn

electrical signals into images.

As computers become more powerful, so does the machinery.

Some CT scanners, such as

those from US company Imatron,

are now so fast they can

follow motion in real time, in

a similar fashion to ultrasound using scalopes.

And the clarity and power of ultrasound images to distinguish between different types of tissue is, according to ultrasound equipment makers such as Seattle's ATL, allowing ultrasonographers to do some of the work previously allocated to CT and MRI specialists.

Secondly, radiologists are increasingly making use of contrast agents in CT, MRI and ultrasound. These chemicals increase image clarity.

They have been around for a long time: it is a standard in plain film X-rays for patients to swallow barium compounds that block the X-ray so that the picture shows the digestive tract clearly. New contrast agents may show various structures within the body more clearly.

In fact, one of the dangers of all these changes is the proliferation of let's-have-a-look-imaging that would not affect the subsequent treatment of the patient whatever it showed, especially in the US, where many doctors are paid extra for doing more tests.

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INSIDE TRACK

BUSINESS EDUCATION FOOTBALL MANAGEMENT

In your head, my son

Sheila Jones finds there is a premium on off-the-ball skills at the modern soccer club

Football has grown so rapidly as an industry it was only a matter of time before management schools picked up on the potential for training its managers.

The University of Liverpool is offering 35 places on a full-time Masters in Business Administration course, specialising in football industries.

It is the first post-graduate course "to focus on the rapidly expanding worldwide interest in the development, management and marketing of football", according to the university. It aims to equip students interested in a career in football with an understanding of the game and with core skills in business administration.

"Football managers in the past were often successful local businessmen who got involved in the game, but never created a football club the way they would treat their business," says Roger Taylor, head of the university's Football Research Unit and founder of the Football Supporters Association. "They never saw the fans, for example, as customers, or treated them the way they would treat their own business customers."

The "huge amounts of money" generated by the game mean clubs are looking for managers who see football as a business and know how the industry works.

They are also becoming less inclined to take on ex-players with no experience off the pitch. "Where there is a lot of money involved, it's hardly the ideal sort of appointment to recruit an ex-player as commercial director, even if he is well-liked and the club's former centre forward."

Students on the course receive training in the generic MBA skills in business administration, and in the organisational structures and social history of football.



Ground work: Roger Taylor, head of Liverpool's Football Research Unit Tom Finnie

They are also expected to complete a dissertation based on independent research following a one-month placement with a football-related business or organisation.

This year's offer of 35 places follows a 20-place pilot year for the course which finishes in September. Alex Phillips, 27, is among the first year's intake. He gave up a job in research and marketing to complete the one-year course.

An Arsenal supporter, he wanted to turn his interest in the game into a career. "Traditionally, the football industry has had a 'jobs for

the boys' image, with people getting into the industry because they have always been there," he says. "Football is something I'm interested in and I want to use my abilities and skills in something I love doing."

Demand is growing for people with the right skills, says Mr Taylor. "Some people were inclined to pooh-pooh the idea of an MBA in football, but now they are saying we need highly qualified people with an interest in the business world and an understanding of the peculiar and particular nature of football."

The game has become extremely complex, he says. "It's not like producing cans of beans. Liverpool does not want to push Manchester United out of business, for example, the way Heinz might want to [to one of its competitors]. It is an odd form of capitalism. What other industry is also expected to understand social problems such as racism? Football is social, commercial and cultural. And of course for some it's a religion."

The course costs £2,200 for students in the UK and European Union, including placement costs, and £6,600 for students outside the EU.

BUSINESS EDUCATION ROLE MODELS

Family values replace the dash for cash

Business superstars are no longer the heroes they once were, even for MBA students, writes **Della Bradshaw**

Fathers, it seems, have a lot to live up to. They are the most respected individuals in the world among graduating MBAs at 10 of the top US business schools, according to a survey by the Fuqua School of Business at Duke University in North Carolina.

They received more than 11 per cent of the vote, more than double that for the next most respected person, Microsoft's Bill Gates, who scored only 5 per cent.

All in all, business people fared pretty poorly. Of the 12 most respected people, five

were family members and only four were business people - Bill Gates, Warren Buffett, Andy Grove and Jack Welch. (The other three favourites, in descending order, were Jesus Christ, Pope John Paul II and Thomas Jefferson.)

The survey appears every two years and charts the differences in the goals, attitudes and employment patterns of some of America's brightest MBAs.

The increasing respect for family members contrasts sharply with results from a decade ago, says Daniel Nagy, director for career ser-

vices and placement at Duke, who compiles the survey. Then, family members appeared towards the bottom of the list, and the poll-toppers were the financial wizards of the day, arbitrageur Ivan Boesky and bond-trader Michael Milken.

The shift is indicative of a growing emphasis on family life rather than financial gain, a trend which has gained particular momentum over the past four years. Time with the family is proving increasingly important. "This generation is willing to walk away from a job if it doesn't offer it," says Mr Nagy.

"They all have three job offers, so they can afford to do that."

Having a successful marriage or relationship, physical health and strong ethics are the three goals rated most highly by respondents.

A successful career slots into fourth place.

Making a lot of money is down in 12th position. Nevertheless, the average starting salary this year will be \$77,224 (£46,241.40), up from \$69,387 in 1996. Eighty per cent of respondents will also receive a sign-on bonus averaging \$17,923, and 37 per cent a guaranteed annual bonus.

The most popular career is still consulting (32 per cent)

followed by investment banking and finance (together accounting for 31 per cent of graduates).

Sixty-four per cent of

respondents said that they would not work in certain industries because of ethical concerns. Top of the black-list were tobacco producers (91 per cent) - perhaps surprising in an area where economic prosperity has been built on tobacco. Second came alcohol manufacturers (22 per cent); defence contractors (12 per cent) came third.

The survey was conducted

in April this year and 1,400 questionnaires were sent to graduating MBAs from 10 business schools: Amos Tuck

(Dartmouth), Fuqua (Duke), Kelley (Indiana), Kellogg (Northwestern), Anderson (UCLA), Chicago, Katz (Pittsburgh), Texas at Austin, Darden (Virginia) and Wharton. The response rate was 48 per cent.

The report also revealed that women MBAs are twice as interested as men in having the opportunity for an in-depth conversation with Bill Gates. And when asked who they would like to sit next to on an aeroplane, 3 per cent of women - but no men - said they would like to sit next to Hillary Clinton.

Only the male respondents said they would like to sit next to supermodel Cindy Crawford.



TIM JACKSON
ON THE WEB

Gateway to opportunities on the internet

Two separate deals - one involving Motorola and Teledesic, the other AOL and ICQ - illustrate the chances to generate revenues on and beyond web sites

Internet investors have recently been talking about the value of "portals" - busy web sites that generate high revenues from advertisers. But portals are not just web sites, as two deals made public last week illustrate.

The first is the acquisition by Motorola of a 26 per cent stake in Teledesic, the company that plans to launch a network of 288 satellites offering broadband worldwide access to the internet. In joining forces with Teledesic, Motorola is abandoning its efforts to develop a broadband satellite communications network called Celestri - and acknowledging that the risks of competing against a company founded by Bill Gates, Microsoft chief, and Craig McCaw, the cellular phone pioneer, were too great for comfort.

For Motorola, the deal is an insurance policy against the obsolescence of Iridium, the network it founded that

will go live in September offering a global mobile phone service via satellite. Although Iridium will have a few monopoly years, before rival services start, the launch of Teledesic in 2003 will make Iridium's low-bandwidth service far less attractive to consumers.

This is the third big equity investment for Teledesic, after a round with Boeing last year and an equity sale to a Saudi Arabian prince this year, making it easier to go public quickly. The price of the Motorola deal has been headlined at \$750m (£449m); the small print reveals this is a "valuation" based on the combination of cash and the development work being redirected from the Celestri project.

For a business that Mr McCaw and Mr Gates put \$10m into less than two years ago - which has launched just one test satellite and is still five years away from revenues -

a \$3bn valuation is not bad going. There is also the advantage, in Richard Nixon's memorable phrase, of having Motorola "inside plugging out rather than outside plugging in".

The second deal is not official yet. But the Wall Street Journal reported on Thursday that America Online is in talks to acquire Mirabilis, the company that developed the ICQ instant-message system, for about \$500m. ICQ was founded on the idea of taking the "buddy list" technology invented by David Gang, a senior technologist at AOL, to the wider internet. It is a free service that allows anyone with an internet connection to exchange instant one-liners with friends across the internet in a single screen window, without having to check mail and create messages.

When ICQ was first covered in this column last

summer, it claimed 3m users. On April 7 it passed 10m. Although it has not yet generated any revenue (it is free to users and carries no advertising), ICQ's website (www.icq.com) has become the fourth most popular destination after Yahoo!, Netscape and Microsoft.

Mirabilis claims it generates more "page views" every month than even Yahoo!.

If the deal goes through both companies refused to comment, the Mirabilis founders, four Israelis in their 20s, will make \$30m or more each for 18 months' work. For its part, AOL has made no secret of its ambition to extend its market power from the 12m US and 2m foreign subscribers using its online service to the rest of the internet's users too. The AOL.com website was a first move in this direction, and the opening of AOL's own message service to non-AOL customers a second; acquiring 10m or more ICQ users would be a dramatic third.

At first sight, \$30 a customer may seem a high

price to pay for a service free to its members. But compared with the \$273 it paid for each AOL subscriber in late 1996, the ICQ price tag looks modest.

Both ICQ and Teledesic are internet portals whose web site is a side-show. ICQ because its users keep a communications window open on their computer screens, and Teledesic because it will control the way its users access the net.

A launch date is so far away that Teledesic has probably barely begun to think about how its service will look to users. But the @Home cable internet access service covered in last week's

column shows how many revenue opportunities there are to a company controlling the internet interface used by its customers. Teledesic's opportunity will be the greater, since it will address hundreds of millions of customers beyond the reach of table networks.

Teledesic is not the only company seeking to create a hardware portal. Gateway, the US direct seller of PCs, has become an internet

service provider, providing the non-expert buyers of \$500 PCs with easy and instant access to the internet.

In Europe, Sony is also rolling out an online service. Given the company's depressing experiences in Hollywood, investors should hold on to their wallets when they hear the word "synergy" - but there is an opportunity to develop an ISP business that bolsters sales of software and computer and electronics hardware, and perhaps helps connect phones and games machines to the net.

And the final hardware portal? Well, look at the antitrust case against Microsoft. In one sense, its tough tactics against Netscape constitute an attempt to extend an operating system monopoly into a browser monopoly. Alternatively, one could view its pressure on PC manufacturers to bundle the Internet Explorer browser into their products as an attempt to create a hardware portal of its own.

tim.jackson@pobox.com

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THE ARTS

OPENINGS

LONDON

Finnish virtuoso Jaakko Kuusisto, accompanied by the Jupiter Orchestra, gives the world premiere of a Violin Concerto by Johann Nepomuk Hummel (1778-1837) tomorrow at St John's, Smith Square. Parts for the unfinished work were found in the British Library by Gregory Rose, who has completed and edited the score.

London's outdoor theatres open their doors this week. The first new production of the season at Shakespeare's Globe is *As You Like It*, directed by Lucy Bailey, with Anastasia Hille as Rosalind. The opening performance is a matinee on Thursday. Richard Olivier directs *The Merchant of Venice*, which opens on Friday. Presented alongside it is an education



including Ian Talbot and Nicola Duffett (left).

Michael Frayn's first original play for the National Theatre opens at the Cottesloe on Thursday. Called *Copenhagen*, it is directed by Michael Blakemore and stars Matthew Marsh (below) as German physicist Werner Heisenberg.

SALZBURG

A new festival of baroque

programme titled "Shakespeare and the Jews". Rachel Kavanaugh's production of *A Midsummer Night's Dream* returns to the Regent's Park Open Air Theatre tomorrow, with a new cast



music will be inaugurated on Friday. The opening event in the cathedral features the Amsterdam Baroque Orchestra and Choir in works by Biber. The festival also includes a production of Cavalli's *La Calisto* in the Kehlsee Festspielhaus, conducted by René Jacobs and staged by Herbert Wamck.

GÖTTINGEN
The Handel festival in one of Germany's oldest university towns gets underway on Thursday at the Deutsches Theater. This year's new production is *Tolomeo*, conducted by Nicholas McGegan and staged by Drew Minter.

BONN
The latest exhibition in the "Great Collections" series organised by the Kunst- und Ausstellungshalle is devoted to the Petit Palais in Paris. Opening on Wednesday, the show concentrates on the museum's holdings of 19th century French art.

BIRMINGHAM
The Birmingham Royal Ballet opens a season at its home theatre, the Hippodrome, on



Wednesday, with David Bintley's highly dramatic *Edward II*, (replete with torture and some very harrowing moments).

NEW YORK

The Royal Shakespeare

Company's two-week residency at the Brooklyn Academy of Music continues this week with the opening, tomorrow, of Gregory Doran's production of Shakespeare's rarely performed *Henry VIII*, starring Paul Jesson and Jane Lapotaire (left). *Krapp's Last Tape*, by Samuel Beckett, opens on Wednesday, and stars Edward Petherbridge, who co-directed with David Hunt.

TOKYO
On Friday another touring Royal Shakespeare Company production opens a two-week season in Japan. Directed by Michael Attenborough, *Romeo and Juliet* is at The Globe Tokyo, and then, from 12 June, at the Kintetsu Theatre in Osaka.

OPERA OPENING OF THE GLYNDEBOURNE SEASON

Back to school for Mozart's lovers

Graham Vick's new production of 'Così fan tutte' as opera-in-rehearsal is full of contradictions, writes Andrew Clark

There are a lot of insoluble contradictions in Glyndebourne's new *Così fan tutte*. How does an excellent young cast, led by Katarina Karnéus, find itself enmeshed in such an excruciatingly dull performance? Why does Graham Vick's staging begin with the idea of 'Cost-as-rehearsal', but fail to offer any development of character and situation? What does Glyndebourne hope to achieve with a new Mozart/da Ponte cycle, when the first instalment is so poorly thought through?

In a programme note, Vick proposes "a laboratory experiment into the behaviour of men and women". His inspiration, he says, comes from the cold, cruel strand of Enlightenment philosophy binding *Cosi* and *Les Héritages dangereuses*. It's a legitimate approach: let's free ourselves of the historical, geographical and interpretative associations with which *Cosi* is burdened; let's study it as a form of "dramatic anthropology", with singers dressed in T-shirts and jeans.

But having stated that *Cosi* doesn't need "any kind of context at all", Vick goes on to describe the very context in which he wants us to view it - as an opera rehearsal. This is equally

viable, for Mozart's "school for lovers" is a rehearsal for life, in which young people try out different partners before reaching a fixed arrangement.

Vick can't have it both ways. A clinical study of young people's relationships would require a neutral set-

properly thought through.

As it is, the production falls between two stools, starved of humour on the one hand and emotional depth on the other. We begin with the rehearsal: Alfonso starts to direct as the overture draws to a close, while Ferrando and Guglielmo gesture dismissively at the parts he expects them to play.

By the third scene, everyone has reverted to type and the women are never again seen out of character. Vick pays lip-service to the "rehearsal" by having stagehands appear at various intervals to give cues, which they wouldn't do in real life. It looks like a shoestring production - monotonous in appearance, bloodless in content.

Like so much of his recent work, Vick's *Cosi* has no inner logic: even the game of musical cues during Guglielmo's Act I patter-song comes across as a superficial effect.

More's the pity, for this is a cast with enormous potential. Karnéus is a bombshell - well-endowed in all departments, eager to flirt with the audience as much as her partners on stage, a knowing comedienne with a natural stage manner and a beautifully placed voice. Barbara Frittoli's Fiordiligi is inevitably quieter by comparison -

but this fits the part, and she dispatches her two big arias with disarming ease. Natalie de Carolis is the perfect Guglielmo: a soft-centred, masculine baritone matched to slim good looks. Roberto Sacchi's Ferrando is not in the same class - his pushed tone is a matter of taste - but he acts with spirit. Daniela Mazzucato's tall, blonde Despina shows plenty of promise, but like Alan Opie's urbane Alfonso, she needs a director who can draw out her personality.

Andrew Davis conducts an

unusually full text, which only adds to the tedium of the performance. He tries hard to sound a natural Mozartian - the London Philharmonic adopts as many "period" mannerisms as it can - but there's little sense of dialogue within the orchestral parts. Apart from an extremely slow "Per pieta", the performance unfolds as a succession of unexceptional allegros.

This was not just a case of a more Romantically impassioned score; it bespoke a conductor, Yakov Kreizberg, with a rigorous command of outline and inner detail. I have never heard the nerves of Janáček's music pulled so taut.

Nor have I witnessed a production so in tune with the orchestra which sounded so anaemic in Thursday's

Cosi could respond with such extremes of intensity and sensitivity for Saturday's revival of Katya Kabanova.

Nikolaus Lehnhoff's 1988 staging, set against the vibrant colours of Tobias Hoheisel's semi-abstract sets, comes across more arrestingly than ever with a new cast headed by Amanda Roocroft. She gives the performance of her life - a stark, swirling roller-coaster of visions and nightmares, in which we share her every heartbeat.

Christian Papis's Boris is a dapper wastrel, while Timothy Robinson and Linda Tuva make a vivid pair of younger lovers. Neill

Archer's Tichon is a powerful portrait of weakness; Andrew Shore, as Dikoj, captures the clipped mannerisms of the provincial tyrant Helga Dernesch's Kabanicha is more formidable in manner than voice. Her scene with Dikoj should be repulsive, not comical; and it is too much of a sermon to have Kabanicha addressing the audience at the end, as if we represent the society responsible for Katya's death.

Otherwise, this is one of Glyndebourne's finest.

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Shame about the production: an excellent young cast with

COMMENT & ANALYSIS

PERSONAL VIEW JOSEPH NYE

It's time for free time

Reform of the US campaign finance system should concentrate on removing the need to raise big money to purchase TV time

The battle for reforming the US campaign finance system needs a new focus: free television time for candidates. President Clinton has asked the Federal Communications Commission to adopt a rule requiring it, but opponents are challenging the FCC's authority to do this.

Free TV time offers the best option for campaign finance reform because it goes to the heart of the problem of big money, and involves no challenge to the First Amendment and its protections of free speech.

Legislative proposals for reform seem to be going nowhere. The McCain-Feingold bill, one of the original proposals for reform in the Senate, is being stalled; the Shays-Meehan bill in the House, meanwhile, focuses on banning contributions from unions and corporations, as well as limiting money from political action committees (PACs) and so-called "attack advertisements". Even if it were passed, it would face a constitutional challenge because it would limit political speech and would run afoul of previous Supreme Court rulings.

Instead of focusing on reducing the ceiling on spending, reformers should shift to a strategy of "raising the floor" so competition is more equal.

Big money has undermined public confidence in the US political process because big money buys access and violates the principle of one person, one vote. As oilman Roger Tamraz told the Senate's governmental affairs committee last year, "If they kept me from the door, I'd come through the window... Next time I'll give \$600,000". Such behaviour breeds a cynicism that corrodes the democratic process. It is no wonder that polls show a decline in public trust.

Much of the campaign quest for big money is driven by the need to pur-



Attack Conservative activist Floyd Brown invited viewers to listen to alleged 'tov tapes' in 1992 AP

chase television time. TV has changed our political process from retail to wholesale. Instead of neighbourhood coffee and local political structures, campaigns today are driven by marketing consultants. Parties have become a mechanism for raising money for television campaigns. The cost of political TV ads rose from \$25m in 1972 to \$400m in 1996, four times the rate of inflation.

Moreover, their content has become much more negative, resulting in a general denigration of politics and government. Experiments show that negative ads mobilise each politician's base of committed partisans, but they tend to make the middle voters drop out in disgust. That partly explains why, as polls show, Congress is far more polarised politically than is the general electorate.

How would free TV work? There are various proposals including one for creating a broadcast bank of minutes with commercial time provided by broadcasters who have been licensed for public transmission. Half the time in this bank would go to the political parties for candidates, and the other half would go to candidates with

broad support among small individual contributors. Candidates could be required to agree to public debates, and appear in their ads in person, something that has been shown to limit negativity in the past. The total costs could be capped at \$500m per two-year electoral cycle, or about ½ per cent of broadcasters' advertising revenues.

The benefits include reduced pressures for fund-raising, and a more level playing field from the one that now favours incumbents or rich candidates.

Free TV was included in the McCain-Feingold bill, but it was unfortunately linked to voluntary limits on expenditure. The bill's sponsors dropped the provision because incumbents feared it, and the National Association of Broadcasters lobbied heavily against it.

It is a more realistic campaign finance reform measure because it raises and levels the floor instead of trying to lower the ceiling.

The author is dean of Harvard's Kennedy School of Government and co-author of the recent book, Why People Don't Trust Government (Harvard University Press)

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FINANCIAL TIMES

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Monday May 25 1998

A stride on the path to peace

The transition to peace in Northern Ireland is a process rather than an event. The results of the twin referendums on the Good Friday political settlement marked another momentous step in the right direction, but it would be naïve to ignore the obstacles which lie ahead.

The outcome of the vote in the province, with a small majority of unionists endorsing the agreement alongside the overwhelming majority of nationalists, was a tribute to David Trimble, the leader of the Ulster Unionists. Against the opposition of MPs in his own party as well as Ian Paisley's Democratic Unionists and Robert McCartney's UK Unionists, Mr Trimble made and won the case for the politics of tolerance against the deep-rooted prejudices of sectarianism.

In the Irish Republic, the overwhelming backing for the removal from the constitution of the territorial claim to Ulster demonstrated once again the new maturity which prosperity and a more secular political culture have brought to nationalism. In the first all-Ireland vote since 1918, both jurisdictions have said the future of the North lies with the consent of its people.

Moderate unionism will need reassurance from both the London and Dublin governments that the new political framework is neither a capitulation to terrorism nor a threat to the union. But durable peace in Northern Ireland is now a prospect rather than a pipedream.

Viagra falls

News of six deaths among users of Viagra, the anti-impotence pill that is taking the UK by storm, should come as no surprise. When a million people take a drug that was tested on 4,500 men in clinical trials, serious side-effects are almost certain to make themselves felt.

The risks intrinsic in any new medicine are exacerbated in Viagra's case by the way middle-aged men, keen to improve their sexual performance, are rushing to evade the normal safety precautions. Viagra is supposed only to be available on prescription in the US to men suffering from "erectile dysfunction". In fact anyone in the world can get it on the grey market through internet suppliers and other sources. This is not the fault of Pfizer, the drug's manufacturer, which does not control the leaky pharmaceutical distribution system.

Men who take Viagra without a proper medical consultation do so at their peril. In particular, anyone with a history of heart disease should remember that the drug's active ingredient was developed originally to have an effect on the heart; its biochemical impact is not restricted to increasing blood flow to the penis.

However, impotent men who would really benefit from Viagra should not be put off just because media attention is swinging to its downside. The US Food and Drug

Administration said on Friday: "We continue to believe that the drug is safe and effective for its labelled indication and intended patient population."

There is no reason why the European regulatory authorities should change their informal plans to approve Viagra in time for Pfizer to launch it in Europe during the autumn. The company is working hard to make sure that European doctors are better prepared than their American counterparts to advise patients who demand it.

Meanwhile, European governments have to work out their policy on paying for Viagra prescriptions. The pharmaceutical industry justifies many popular new drugs on economic grounds, arguing that the additional prescribing costs will be offset by savings elsewhere - because healthier patients spend less time in hospital. That argument does not work for Viagra, which will increase spending on health.

In the US, many health insurers are refusing to reimburse Viagra prescriptions unless the doctor certifies that the patient has erectile dysfunction. National health services in Europe will have to take a similar line, though it may be hard to enforce. At a time when governments are hard pressed to pay for new treatments for serious illness, they cannot afford a new wave of state-funded "life-style" drugs.

Less majesty

The sins of the father are still visiting Japan's Emperor Akihito. When he arrives in London today as part of a two-week European goodwill tour, he will find the past has travelled with him.

The most obvious reminder will be protests by British prisoners of war demanding a frank apology, as well as cash compensation, for hardships suffered during their time in captivity. Another sign of the ghosts to be exorcised will be the stilted performance of Akihito himself, still searching for a public identity befitting the late 20th century.

There are two causes of the emperor's discomfort. He and his retinue are aware that his father's role as a religious symbol served as a rallying point for the Japanese military before and during the second world war. The Greater East Asia Co-Prosperity Sphere was brutally accumulated in the name of Emperor Hirohito, and Akihito does not want his own name abused.

Less honourable are the motives of traditionalists, some of them on the emperor's staff, keen for him to keep a godly distance. After the war, Hirohito renounced his divinity, but the understanding remains that his son is descended from the divine. The traditionalists want to emphasise this sacred state by limiting his contact with mere mortals.

Akihito has tried to humanise

the imperial family. He encouraged the release of photographs of himself at ease in a Volkswagen Beetle, and gives the occasional, if carefully controlled, press conference. His visit to London should provide an opportunity for him to swap notes on further reform with a British monarchy examining its own role.

Last century, in seeking to build the the imperial profile, Japanese officials sought inspiration from the British monarchy and its ceremonies. But the visit to London will be more controversial as that stops in Portugal and Denmark.

It is appropriate for Emperor Akihito to find a form of words to address the war, without crossing the line that forbids involvement in politics, but the question of compensation is not one for him. Legally, the Japanese government made amends in signing the San Francisco Treaty in 1951. And if the relatively small number of British victims are compensated, what of the millions of Chinese and Koreans maltreated earlier this century? And what of those Asians who suffered under European colonial rule?

For history to haunt the Emperor no more, he needs to find a public personality that makes sense in modern Japan. His small steps toward a secular, approachable monarchy are clearly in the right direction.

COMMENT & ANALYSIS

Past tense, future hopeful

Ireland's political landscape has changed but the battle for hearts and minds rolls on, says John Murray Brown

It was W.B. Yeats, the Irish poet, who summed up the mood of fear and excitement after Ireland's Easter rebellion against British rule in 1916 with his famous couplet:

All changed, changed utterly:

A terrible beauty is born.

This weekend, the mood in Belfast and Dublin seemed to justify that oft-quoted phrase once more: that Ireland's political landscape has been "changed, changed utterly" as referendum voters north and south of the border gave a commanding joint endorsement to the Good Friday agreement. At its core this offers a chance to heal the divisions between nationalism and unionism, and bury the violence of the past.

On the other hand, the vote has left Ulster unionists deeply and bitterly divided as never before, with far no short of half the Protestant population of the province having opposed a deal.

Nevertheless, with the accord backed by 71 per cent of voters in Ulster and 94 per cent in the Irish Republic, the result will be impossible even for the No camp to ignore. "History... History Maker" proclaimed a campaign poster with the faces of Rev. Ian Paisley and David Trimble, leaders respectively of Northern Ireland's Democratic Unionist and Ulster Unionist parties.

But there are several other potential flashpoints. The weekend seizure by Irish police of a huge bomb destined for the North was a reminder of the dangers still posed by Republican splinter groups - and of the need for Gerry Adams to offer unequivocal proof of Sinn Féin's commitment to peace. The traditional summer marching season will demand painful compromises from both unionists and nationalists. The thorny issue of the decommissioning of paramilitary arms loans on the horizon.

Moderate unionism will need reassurance from both the London and Dublin governments that the new political framework is neither a capitulation to terrorism nor a threat to the union. But durable peace in Northern Ireland is now a prospect rather than a pipedream.

For once, the elegiac pleas of John Hume, leader of the moderate nationalist Social Democratic and Labour party, "to end this out-of-date quarrel" seemed totally appropriate. Other political figures from the recent past were also quick to recognise the significance of the result. "It is one of the great moments. There was 1916, there was the 1921 treaty [which partitioned the island] and there was this, the three turning points in our history," said Garrett Fitzgerald, the former Irish prime minister.

The result hardly seems possible given that just six months ago, the multi-party talks at Stormont were bogged down over procedural wrangles.

At that stage, unionists must have believed Sinn Féin would never be able to convince its members to drop its ban on taking seats in what republicans have traditionally dismissed as a "partitionist" assembly.

Yet today, after 26 years of direct rule from Westminster, Sinn Féin and the other local politicians will have a chance to shape their own destiny together by sharing in government. The agreement also envisages cross-border bodies to foster co-operation.

An answer to unionist concerns that the measures were a staging post to a united Ireland, the deal commits all parties - including Sinn Féin - to the principle that the constitutional status of the province can be changed only with the people's consent.

Joe Lee, professor of history at Cork University, says this means the great constitutional debate "is in cold storage for probably another generation or at least until the demographics change".

If the accord is a compromise between the constitutional parties, it is also a challenge for Sinn Féin - and its loyalist counterparts - to renounce violence. With unionists insisting Sinn

Féin cannot be allowed to take their places in government while the IRA remains at large, the issue of weapons decommissioning seems certain to loom large in the assembly's early days.

Yet even to contemplate the possibility of Mr Adams sitting at the same cabinet table as Mr Trimble, is to provide a measure of the breakthrough.

The events will have an even stronger resonance for Bertie Ahern, the Irish prime minister. Sinn Féin is travelling much the same route - from espousing violence to participating in constitutional politics - as his Fianna Fail party took under Eamon de Valera, the long-serving Irish prime minister, in the 1930s. It was de Valera's 1937 constitution which Irish voters effectively agreed to amend through the referendum result, dropping the republic's territorial claim over Northern Ireland.

The vote, as the first all-island poll in 80 years, has a huge symbolic significance. Republicans have long justified the armed struggle as part of the fight for self-determination, citing the 1918 election when the island's electorate voted for independence by giving Sinn Féin a majority of seats - a result ignored by the British authorities. That justification has now been removed.

Hardly were the polling stations closed than some of the smaller parties were pressuring officials to take down their campaign posters ready to recycle them for the assembly election.

The contest for seats in the assembly promises to be the most bitterly fought election in recent years. Predictions are hard to make based on Friday's poll, with ballot papers not counted on a constituency basis, but on a province-wide basis, it is difficult to provide a community breakdown - a move which government officials said was a deliberate attempt to underline the cross-community nature of the endorsement, and soften the divisions that the poll might throw up.

For all that, the Ulster Unionists' parliamentary party is split, with six of its 10 MPs openly opposing the settlement. Whether that translates into seats in the assembly will depend on which candidates the 18 local associations select. Given the autonomy of constituency branches, Mr Trimble may not have total control over the process.

In addition, it will not be easy for Mr Trimble to mobilise the sort of communal commitment that drove people, who would normally vote, to turn out. But equally the fairly convincing nature of the referendum result may persuade some people who voted No to think again.

There was speculation yesterday that in Mr Trimble's constituency of Upper Bann - where the No vote was strong - he may be challenged by a local Orange

man. This raises the intriguing possibility that the UUP leader could be seeking and perhaps giving "transfers" with the SDLP candidate under the proportional representation system.

But the overall expectation is that voting patterns, having crossed sectarian and religious lines in the referendum, will return to type, although the electoral system will allow for tactical voting.

Sinn Féin has already called for electoral pacts with the larger SDLP avoid splitting the nationalist vote in constituencies. Mr Hume yesterday suggested his party would probably seek transfers from all parties.

But some detect in this a sign that Sinn Féin expect its share of the vote may fall. Polls suggest support for Sinn Féin may have peaked, with the SDLP and Mr Hume widely seen as the architects of the peace process.

For a party which has made much of its move to electoral politics from armed struggle, any evidence that Sinn Féin's vote has slipped will be awkward to sell to its grass roots.

The fight within unionism is certain to be much tougher, as Mr Trimble attempts to counter Mr Paisley. The DUP will be seeking to translate the 28 per cent No vote into seats in the assembly. Sydney Elliott, a lecturer at Queen's University in Belfast expects the DUP will be looking to invoke a clause in the agreement that allows amendments to be tabled if they are supported by 30 or more assembly members.

But Friday's poll has shown that the politics of majorities and minorities has been shattered, with Protestants and Roman Catholics - many of them for the first time in their lives - voting on the same side.

The psychological effect cannot be underestimated. "It was the first time that I know I am voting with the majority," said Monica McWilliams, leader of the Women's Coalition and a Catholic.

The DUP is still clinging to the claim that a majority of unionists have not backed the deal. Indeed, to listen to Mr Paisley's Democratic Unionists argue over the numbers, you might think the Catholic vote did not count. But the wide overall margin between the Yes and No vote should be enough to see the deal take root in both communities.

More broadly, the poll raises hopes for a wider reconciliation between the communities, which has already started at grass roots level.

"Is it back to the days of Barry McGuigan?" asked one radio commentator, referring to the Catholic boxer who brought back the world title to the cheers of both communities.

The referendum victory is clearly only the first step. For relatives of the victims of the violence - the more than 3,000 people killed - the poll was a mixture of pain and relief.

The marching season, which reaches its peak with the protestant Orange Order's Drumcree parade on July 5, could prove a battleground for sectarian division.

Meanwhile splinter groups may yet seek to undermine the deal. But the news priorities of the local television station summed it all up. After switching from the count station to the various outside broadcasts, it relegated reports of would-be terrorism to the end of the bulletin. If the result consigns the men of violence to a bit part role, it is already a considerable achievement.



OBSERVER

In place of strife

Three years ago in Moscow, Michael Leathes and Kirill Ivanov decided that a new way had to be found of sorting out commercial disputes involving investors in Russia.

The corporate lawyer - Leathes has worked for Gillette, Pfizer and GrandMet and is now with BAT - and the former Russian deputy minister, Nikolai Drozdov, and a clutch of lawyers including two who are members of both the London and New York bars - Leathes himself and Lord Hacking, a partner in a US law firm specialising in business litigation and international arbitration.

It's good to see lawyers trying to do themselves out of business.

Russian contracts provide for arbitration to settle disputes but the Russian arbitration courts are logjammed with 300 cases, and others are pending at arbitration centres around the world.

The solution, the two decided, was mediation, a concept applied around the world to settle disputes in everything from marriages to property rights. They collected a steering group of like-minded people who will launch in September an organisation called Peaceful Settlement, offering mediation from offices in London, Washington, Moscow and Kiev.

Andrey Adamishin, former Russian ambassador to London, has agreed to be a trustee, as has Dr David Owen, the former British Foreign Secretary who once did one of the world's toughest mediation jobs - in Bosnia.

Congress went into recess at the end of April. Since then, legislators have been unable to agree on a

date for an extraordinary session to discuss Zedillo's controversial reforms.

Government officials say the very survival of Mexico's banking industry is at stake. But never mind that now. The deputies know that Mexico's soccer team, a faded repository of national pride, will need all the support it can get in its opening matches against South Korea, Belgium and Holland.

Golden chance

Are things really changing in the Czech Republic's seedy capital markets? There was one hopeful sign last month when Jan Müller, one of the stock exchange's leading critics, was chosen to head the bourse's new watchdog.

Now Howard Golden, the scourge of Czech investment funds, is today set to join the supervisory board of the Restitution Fund, the country's biggest closed-end fund.

Deputies say they don't want to distract the nation from such an overriding passion as football, but the delay may have less to do with the people's attention span and more to do with how many of their elected representatives are in possession of tickets for the forthcoming Cup in France.

Deputies say they don't want to distract the nation from such an overriding passion as football, but the delay may have less to do with the people's attention span and more to do with how many of their elected representatives are in possession of tickets for the forthcoming Cup in France.

under its control. But it looks as if even PIAS wants to give the sector a bit of a wash and brush-up - it is nominating Golden to the board.

Sound advice

In this time of financial chaos in Indonesia, the central bank has been looking for an adviser - and has invited Helmut Schlesinger, president of the Bundesbank in Germany's post-unification years.

Schlesinger, who retired from the German central bank five years ago aged 69, sounds just the man to stiffen Jakarta's monetary backbone. He was once accused by James Baker, former US treasury secretary, of looking under every stone for inflation.

Indonesia's new president B.J. Habibie, a fluent German speaker, might welcome the central banker's reassuring presence. But don't expect Schlesinger to have any truck with Habibie's eccentric "zigzag theory" - that you can boost the economy by a series of interest rate cuts and rises. That kind of radical thinking is enough to give the 40-year Bundesbank veteran heartburn.

Grève issue

Not all French workers are happy with the new law cutting the maximum working week from 39 to 35 hours - the state's own labour inspectors have just gone on strike. Apparently making sure everyone else works less means more work for them.

Financial Times

50 years ago

Air Freight in The United States

One of the fastest growing industries in the United States is the transportation of freight by air. The 16 scheduled domestic airlines carried 1,400,000 ton-miles of freight in 1945, about 20,000,000 in 1946, about 40,000,000 in 1947, and expect to carry 80,000,000 in 1948. But the "non-scheduled" all-cargo carriers' business has grown

even faster, and is now estimated to be running 60 per cent larger than that of the regular passenger-carrying airlines. Regular American passenger airlines flying international routes carried almost 15,000,000 ton-miles of freight in 1946 and 34,000,000 ton-miles in 1947. T.W.A. has two DC-4's flying all-cargo to Europe and India.

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FINANCIAL TIMES

COMPANIES & MARKETS

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MONDAY MAY 25 1998

Week 22

INSIDE

Swedish car groups to set out plans for route ahead

Scania and Volvo, the Swedish vehicle makers, will this week set out their strategies for capturing a larger share of the executive car market. On Thursday, Volvo launches its new large car, the S80. Today, Scania is due to announce an expansion of its three Swedish plants. Both hope their plans will secure their market share and capture new sales. But there are similarities and... Page 17

German market optimism continues

Analysts believe optimism about the German share market is set to continue because companies are still benefiting from restructuring and strong export growth. The domestic economy is also improving, although no change in interest rates is expected. Shares closed stronger in Frankfurt on Friday. The Dax index of 30 blue chips ended up 15.7 points at 5,530.2. Markets Week, Page 17

Russian bourse faces testing times

The Russian Trading System Index of the most liquid stocks fell 2.1 per cent on Friday, ending a week in which share prices dropped nearly 13 per cent. Those investors who pushed the market to its peak less than nine months ago are now avoiding it like the plague. Emerging Markets, Page 17

EAI overcomes tourism crisis

EAI, Israel's state-owned airline slated for privatisation, cut losses from \$80m in 1996 to \$41 last year in spite of fewer incoming tourists, according to 1997 results. The improvement is expected to help government efforts to begin the airline's long-awaited privatisation. Page 17

Yen holds key to Nikkei rise

Investors will be watching to see if the benchmark Nikkei 225 index threatens the 16,000 point mark. Much depends on the performance of the yen, which last week continued to deteriorate against the dollar. Markets Week, Page 19

Ence attempts to raise its profile

A merger is being considered between Ence of Spain and Portucel Industrial of Portugal, the Iberian Peninsula's two main pulp makers. But stock market fluctuations have meant the Portuguese company is worth about 80 per cent more than the Spanish. Ence is now trying to boost the stock by raising its profile. Market Movers, Page 17

Euro focus moves to Bundesbank

The political situation in Indonesia and speculation ahead of a Bundesbank council meeting will be focal points of European equity and fixed-income markets. With New York and London markets closed for public holidays, trading on continental bourses may lack direction. Equities, Page 21

UK investors will look to results

Results will be the focus of the UK market, as privatised companies, including Anglian Water, BAA, E.ON, South West Water, United Utilities and Yorkshire Water, release their final results. Page 19

FT GUIDE TO THE WEEK**full listings Page 30****SPANISH TRIAL**

The trial begins in Spain's supreme court today of former interior minister José Barrio Ruiz and 11 others, including eight police officers, over the "dirty war" carried out against Basque terrorist suspects in the mid-1980s.

TRANSPORT AGENDA

A two-day European Union transport ministers' conference opens in Copenhagen on Tuesday. The agenda includes railway policy, modern technology, investment and road transport.

DANISH REFERENDUM

Denmark holds a referendum on Thursday on revisions to the European Union's Amsterdam treaty which would pave the way for EU enlargement eastwards and a common policy on refugees and asylum.

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Interest in Mirror could attract rival suitors

By Cuffy Newman and Jonathan Sirtori in London

Other companies are expected to approach Mirror Group, the tabloid newspaper owner, following last Friday's announcement that Axel Springer, the German group, is considering a takeover bid.

Although it is not certain that Springer, owner of Bild, a German tabloid newspaper, will come up with a formal offer, observers believe the news will flush out a rival

suitors such as Tony O'Reilly's Independent Newspapers. On Friday, Springer - which had first denied market rumours that it was mounting a bid for Mirror - said it was considering several "opportunities", including an offer for the company.

Gus Fischer, the new head of Springer, telephoned David Montgomery, chief executive of Mirror, at his Italian villa over the weekend. However, no offer has materialised.

Mirror has looked vulnerable

to a bid for some months as its share price has been depressed by City doubts about strategy and management. Last year's acquisition of Midland Independent Newspapers, the regional newspaper group, failed to revive its shares.

Independent Newspapers has been mooted as a bidder before and recently bought out Mirror's 46 per cent interest in the UK's Independent newspaper and its Sunday sister paper. However, analysts doubt whether Mr O'Reilly

would be prepared to pay an acceptable price to Mirror and whether his group would get regulatory clearance. Independent Newspapers could not be contacted for comment.

Analysts had originally predicted a 260p a share deal from Springer, valuing Mirror at about £1.2bn (\$2bn). However, Mirror sources have suggested it will hold out for more than 300p a share.

Takeover speculation may hasten the decision on a new chairman at Mirror, and Victor

Blank, former chairman of Charterhouse Bank, is expected to be appointed. An experienced City figure, Mr Blank advised Mr O'Reilly in 1994 on the purchase of an initial stake in the Independent newspaper company, Newspaper Publishing, to prevent Mirror gaining full control.

Mr Montgomery is understood to have been in talks with Telewest Communications, second largest cable TV operator in the UK, offering his services as chief executive.

By Nicki Tait in Chicago

Cantor Fitzgerald and the New York Cotton Exchange have made substantial concessions to their proposals for a new electronic trading system in an effort to get regulatory approval for their challenge to the Chicago futures exchanges.

The Cantor Financial Futures Exchange - a joint initiative between Cantor, one of the leading interdealer brokers in US government bonds, and NYCE - has been seeking approval to handle computer-based trading of US Treasury securities since February. If this gains a regulatory green light, it could be the first screen-based futures trading system to challenge the big futures markets in the US.

The two big Chicago exchanges - the Chicago Board of Trade (CBOT) and the Chicago Mercantile Exchange - trade mainly via the traditional pit-based "open outcry" in daytime hours, although both have developed electronic systems for after-hours trading.

Regulatory concerns over the CFEX have focused on the role of "terminal operators" who would be jointly employed by Cantor and the NYCE and would input telephone orders from authorised traders into the exchange's electronic matching system.

Cantor has offered to register 250 of these operators as floor brokers with Manhattan-based NYCE. This would bring them under the umbrella of the Commodity Futures Trading Commission, the industry regulator, and make them subject to supervision by NYCE's market surveillance officials, although they would sit in Cantor's offices.

A number of exchanges claim the proposed exchange is "fraught with conflict and the potential for customer abuse".

CBOT, which could lose valuable bond futures business to the new exchange, has argued that since the terminal operators would be dually employed, they could be executing orders for Cantor while taking orders from other traders. They could use information from futures trades, for example, to generate business in the cash market.

Outlook over page, Page 19

Crédit Lyonnais to kick off new rescue plan with shares sale

By Andrew Jack in Paris

Crédit Lyonnais plans to sell up to a third of its shares to institutional investors before the end of this year as part of a new rescue plan agreed in a new rescue plan approved by the European Commission last week.

In an interview with the Financial Times, Jean Peyrelade, chairman of the state-owned bank, said he hoped to sell significant minority stakes to a number of friendly financial institutions by December at the latest.

The move would come ahead of a privatisation of the majority of Crédit Lyonnais' shares by public flotation on the Paris stock market in 1999, in line with commitments given to the European Union competition authorities to reduce the state's stake to 10 per cent or less by the end of October next year.

Mr Peyrelade also indicated his interest in merging with another bank in the months following the privatisation.

"I don't think our future is one of absolute independence. We have to consider the concentration in the European banking sector."

A final decision on the way

Crédit Lyonnais is privatised rests with the French government, which directly and indirectly controls 82 per cent of the bank's capital. But the current left-wing administration has shown considerable sympathy to the approach favoured by the bank's top management.

Mr Peyrelade said that a small group of friendly investors - likely to include the German insurer Allianz and one or more US pension funds

- would be offered new shares in Crédit Lyonnais as part of his efforts to raise FF10bn-11bn (\$110m-\$1.1bn) in new capital

to reinforce the solvency ratio ahead of a full privatisation.

Separately, an independent valuation this autumn will determine the number of additional Crédit Lyonnais shares to be given to the French government as a way for the bank to cancel a penalising loan and a profit participation clause agreed as part of its original 1995 rescue plan.

These shares - likely to have a total value of FF20bn-25bn - will dilute the bank's existing non-voting *certificats d'investissement*, which are quoted on the Paris stock market.

Mr Peyrelade confirmed that Crédit Lyonnais would move swiftly to respect the engagement imposed by Brussels to sell operational assets, including its Belgian subsidiary, by the end of this year. However, he stressed that "nothing vital" among its activities in New York, Tokyo,

fifteen. But he said he was open to "free and friendly" discussions with potential banking partners about a merger. "My office is open, and I am waiting for flowers and chocolates," he said.

At the end of March sterling rose to its highest level against the D-Mark since 1989. Since

then it has fallen 24 pence, or nearly 8 per cent, to below DM2.57.

Sterling initially fell as weak UK economic data suggested interest rates were unlikely to rise further.

J.P. Morgan forecasts that sterling will fall to DM2.70 against the D-Mark by the end of this year - but will bound back above DM2.80 when the forward contracts expire and holders unwind their positions by buying pounds.

At the same time, those same individual American investors are continuing to run up credit-card debt at interest rates which imply a high preference for consuming today over consuming in the future. As long as there are stocks around that show a three-year return of more than 2,500 per cent, investors have no need to decide between these rates of time preference.

But at some point they may be forced to make a choice - and the long-term outlook implicit in the current level of stock prices may be the loser.

• I am grateful to William Fleckenstein at www.stocksite.com for pointing out the Benjamin Graham quotations.

peter.martin@jpm.com

Sterling suffers in move to protect Ecu assets

By Richard Adams in London

Sterling's sharp fall on the foreign exchange market has been exacerbated by investors selling the pound to protect assets denominated in European currency units, according to J.P. Morgan, the investment bank.

Sterling is part of the basket of currencies making up the Ecu. Sterling's recent decline, started by weak UK economic data, has driven the Ecu down and sparked a rush by Ecu bond holders to hedge their positions by selling sterling.

Ecu investors are borrowing

sterling and selling it against the Ecu, in contracts for settlement after January 4 1999, when the euro begins trading.

That way they will be compensated for any further fall in sterling.

Ecu-denominated bonds have attracted investors

because of the European Union's decision to convert Ecu for euros at a rate of one to one after January 1999.

But although the UK will not join the single currency, sterling still makes up 18 per

cent of the Ecu, the basket of currencies of EU member states.

It's a unique situation," said Mr Persaud. "The sterling exposure cannot be ignored. When sterling fell from DM2.90 in just 26 days earlier this year, this equated to a 100 basis point [one per cent] fall in the value of the Ecu versus the D-Mark."

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sterling will fall to DM2.70

COMPANIES & FINANCE

US BANKING EXPANSION PLANS INTACT DESPITE WITHDRAWAL OF \$24bn MELLON BID

BoNY still keen on further acquisitions

By Jane Martinson,
Investment Correspondent

Bank of New York is keen to make further acquisitions in spite of the withdrawal last week of its \$24bn bid for Pittsburgh-based Mellon Bank.

Tom Perna, head of the group's investment company services, said that BoNY was still keen to expand through acquisition after pulling out of the largest unsolicited bid for a bank in US history.

The group is intent on expansion in Europe and could announce a deal in the UK in the coming months. It also continues to have designs on State Street, its Boston-based rival.

"We will certainly turn our attention back to [expanding] product lines through acquisition and we believe the State Street acquisition would be a good one," said Mr Perna.

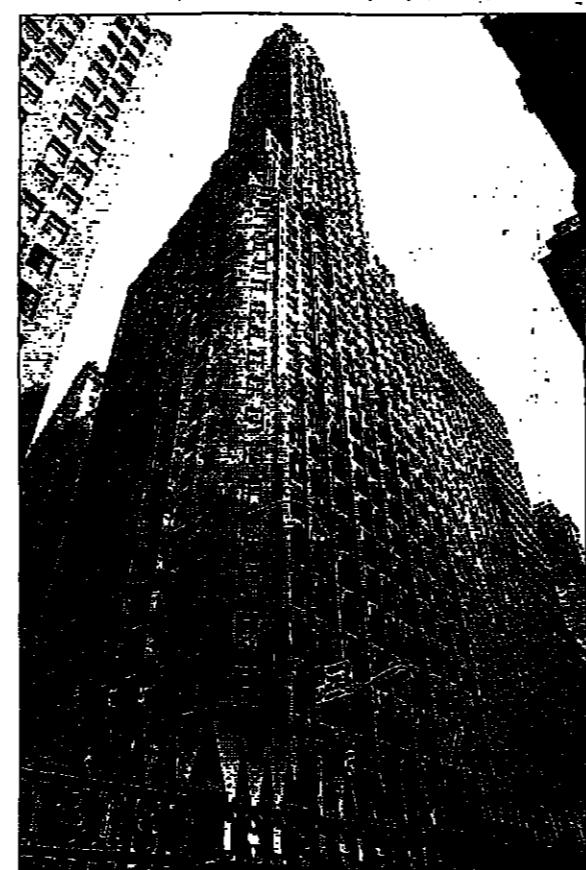
BoNY abandoned its bid to increase its stake in State Street last year after opposition from both the target's management and from Massachusetts banking regulators.

It now holds a "significant stake" in the company of less than 5 per cent.

BoNY, the oldest bank in the US and previously regarded as one of the most staid, is pursuing a strategy of growth in fee-generating businesses, such as securities processing, rather than traditional lending.

It has made 33 acquisitions of processing businesses since January 1995, including the purchases of J.P. Morgan, NationsBank, BankAmerica, and Wells Fargo.

State Street, which has more than \$3,000bn in assets under custody, is one of the world's three largest global custodians, along with BoNY and Chase Manhattan.



Number 1 Wall Street, Bank of New York's headquarters AP

Company executive in HK resigns

By Louise Lucas
in Hong Kong

Three mainland-backed Hong Kong companies have confirmed that Fang Dacheng, their senior executive, was under investigation for alleged economic crimes in China. He has now resigned from those companies.

Reports of Mr Fang's arrest circulated through the market last week, prompting a sharp fall in the shares of Orient Holdings, the Hong Kong-listed division of the recently disbanded China National Nonferrous Metals (CNNC).

The moves followed a series of trading scams that contributed to CNNC losses last year of more than US\$200m.

Onfem said it had received confirmation that Mr Fang had been under investigation for his "alleged economic crimes" committed while he was acting as a managing director for the parent company.

Similar statements, including news of his resignation, were issued by other parts of the former CNNC group, Jianxi Copper and Silver Grant International Industries, which also announced the resignation of another executive director, Sheng Yong.

None of the companies has suffered financial losses as a result of the case, the statements added.

Mr Fang's resignation comes at a time of a broader crackdown on corruption at mainland-controlled business groups.

It follows the arrest last month of Jin Deqin, a former director of Ka Wah Bank, the Hong Kong financial arm of China's flagship investment agency Citic.

IBM bank system hits snags

By George Graham,
Banking Editor

IBM, the largest supplier of IT services to the banking industry, has run into difficulties over the development of CoreBank, the system it has been marketing as a basic computer platform for retail banks.

CoreBank was originally developed by a consortium of Danish savings banks and developed by IBM as an international banking system. IBM has sold the

system to banks in the UK, France and Sweden, but has encountered problems in adapting the software.

In the UK, Halifax chose CoreBank 18 months ago as its principal retail banking platform, in the hope that the system, which can handle dates after the year 2000, would solve its millennium bomb problems.

But senior Halifax executives said the system had proved unable to handle features of the UK banking market such as mortgage interest relief at source, and was a long way from being ready to implement.

"Basically, IBM overpromised," a senior Halifax executive said.

The bank - then a building society in the process of preparing itself for flotation - was estimated at the time to be paying about £20m for CoreBank. Several other UK banks have also spent millions of pounds trying to implement CoreBank in their own systems although they have not been publicly announced as clients.

Euro to shake up chemicals

By Jenny Lusby

The launch of the Euro will provoke a new round of acquisitions of UK chemical companies, as the sector moves into long-term decline, according to research just published by Dresdner Kleinwort Benson.

In a survey of chief executives and finance directors from the UK's 20 leading chemical companies, DKB points to falling European chemical prices and profits as a result of the Euro launch, with UK companies

hard hit because of the simultaneous strength of sterling.

The brokers say the slowdown will trigger further consolidation, as European and US chemical companies seek to preserve profit margins by raising market share and maximising economies of scale.

One of the main pressures on the European industry will be the ending of differential pricing. Of the UK chemical companies surveyed by DKB, three-quarters revealed wide variations

across European countries. For a quarter of the companies, the price variation from country to country was greater than 10 per cent.

The move to a single currency seems certain to reduce these prices to the lowest common denominator. Indeed, this process is already under way, an example being DuPont's recent decision to cut nylon prices in the UK, where they were 12 per cent higher than elsewhere in Europe.

However, "from day one of the Euro, competition is

going to become a lot fiercer", said Allister McLeish, finance director of Yule Catto, UK chemicals company.

The brokers calculate that on a purchasing power parity basis within the chemicals industry, an appropriate Euro entry level for the UK would be DM2.60. However, "a similar comparison for the service sector indicates a rate of DM3.33, suggesting a likely entry level for sterling in the region of DM2.85."

On Friday night, the pound closed at DM2.87.

PIs hired to check out eastern promises

By Jonathan Gathie

An increasing number of UK companies buying businesses or setting up joint ventures in former Soviet Union countries are recruiting private detectives to investigate their eastern European collaborators.

Edwin Harland, director of European operations at Network International, the fraud risk management company owned by the Hamburg banking group, said business was growing because "a

huge number of western companies and banks have had their fingers burnt over there".

Mr Harland said the main problem facing his clients was that information provided by Russian businesses selling subsidiaries sometimes greatly overstated the value of the assets on offer.

He added that some Russian entrepreneurs had lied about their contacts and influence to lure western companies into lucrative joint venture agreements.

However, a Russian diplomat, who asked not to be

named, said: "This is a sensitive issue, but there is no special problem with fraud in Russia... we also have a lot of cases of Russian companies being defrauded by foreigners with part of the transaction passing through the UK."

Some investigations are handled by the UK and US staff of the fraud management operations, which include specialised departments within large accountancies. Local experts are also employed.

Kroll Associates, the fraud management and security company, said it was also taking on an increasing number of briefs from UK companies doing business in the former Soviet Union.

Tommy Hesby, chairman of Kroll Europe, said: "The frontier is moving outwards... more and more clients are interested in Georgia, Kazakhstan and Uzbekistan, as well as Russia."

However, a Russian diplomat, who asked not to be

DERIVATIVES DISPUTE GROWS OVER COMPUTER-BASED TRADING PROPOSAL

Outcry over Cantor/NYCE Treasury plan

By Nikki Tait in Chicago

When plans for a new computer-based trading system for US government bond futures leaked out last year, many saw it as a challenge for the big established US futures markets, which still operate on the "open outcry" system - where traders physically signal to each other across a pit.

The new trading platform, by contrast, would be a joint venture between the New York Cotton Exchange, one of the smaller Manhattan-based exchanges, and Cantor Fitzgerald, a leading broker for US government bonds.

It would offer computer-based trading of US Treasury bonds, 10-year notes, five-year notes, and two-year notes futures - cutting directly into the Chicago Board of Trade's huge US bond futures business.

The hours promised by the new exchange - 7.30am to 5.30pm - would be longer than the conventional pit trading hours. And, although fees have been not disclosed, the new exchange would almost certainly attempt to reduce trading costs below those at CBOT, the world's biggest futures market.

CBOT's objections focused on the role of these terminal operators. The exchange pointed out that there was no requirement for them to be registered with the CFTC and thus subject to NYCE's regulatory supervision.

"Equally, while taking orders from outside parties, the terminal operators might also be executing business for Cantor."

"This lack of independence... increases the potential for abuse, since the terminal operator could use information from futures trades to generate business in the cash market," said the CFTC.

That CBOT would fight against the Cantor/NYCE scheme was hardly a surprise. But a handful of other exchanges, including the American Stock Exchange and the Minneapolis Grain Exchange, also weighed in on CBOT's side.

Meanwhile, the CFTC seemed to have its own reservations. This month, it sent back a 25-page letter to NYCE/Cantor with 112 questions.

NYCE/Cantor has wasted little time in responding. Late last week, the two organisations sent back a revised plan in effort to deal with the contentious role of

the terminal operators, they are now proposing to register these individuals - perhaps 250 people - as conventional futures industry "floor brokers" and making them subject to NYCE's regulatory supervision.

"We've responded to all the CFTC's questions with further clarification," says Joseph O'Neill, NYCE's president.

Mr O'Neill said that whether this begins to satisfy the regulators - or generates a fresh blast from CBOT - remains to be seen.

Mr O'Neill is still hopeful of a June approval, although CFTC rules allow the regulators 12 months to consider the issue - and the clock stopped before the sending of the CFTC's letter to NYCE/Cantor and last week's revised filing.

Meanwhile, Cantor/NYCE are not the only ones on the attack. While they are threatening to poach CBOT's territory, the Chicago exchange has said it would launch its own electronic system for trading cash government securities in July.

This would be done through Chicago Board Brokerage, a joint venture with Pruden Yamani, one of Cantor's competitors, and represents a direct incursion into Cantor's turf.

Rubbing salt in the wound under the partnership

wound, CBOE is proposing to licence the required trading software from Market Data Corporation, a Cantor affiliate spun off from its computer programming department and now controlled by Iris Cantor, widow of one of Cantor Fitzgerald's founders.

Cantor is not sitting still. It is incensed enough to sue Mrs Cantor, claiming that she and Rodney Fisher, Market Data's chief executive, have breached their obligations under the partnership

FINANCIAL TIMES MONDAY MAY 25 1998

Unilever's seed unit attracts Monsanto

By Maggie Barry

Monsanto, the US life sciences group and pioneer of genetic modification of crops, is a leading contender in the auction to buy Plant Breeding International, Unilever's seed business.

Unilever, the Anglo-Dutch consumer group, put the business up for sale last month. Although it has a turnover of only £16m, it is expected to fetch hundreds of millions of pounds.

Charlotte Walliker, head of Monsanto's agriculture business in the UK and Ireland, said that Monsanto and other life sciences groups were "all interested" in buying PBI. She said Monsanto continued to need access to the best plant strains for its genetic modification work.

Dupont of the US and Novartis of Switzerland are also likely bidders.

PBI's expertise is in wheat, and it produces the market-leading winter wheat strain in Europe. Mrs Walliker said: "Anyone who wants to buy PBI needs access to good germ plasm." Recent deals, including some done by Monsanto, had put "extraordinary" multiples on target companies.

This month, Monsanto paid \$4bn (£2.3bn) to take control of two companies, DeKalb Genetics and Delta & Pine. Last year, Monsanto paid more than \$1bn to buy Holden's Foundation Seeds, a multiple of 22 times sales.

Monsanto's strengths in the US are in soybeans, cotton and maize. Its first commercial crops have been bred to tolerate its Roundup herbicide, enabling better weed control with less herbicide usage and therefore higher yields.

Genetically-modified crops have met consumer resistance in Europe, although commercial crops of maize are being grown this year in Spain and France. Trials of modified crops in the UK, including oilseed rape and sugar beet, are under way and could go into commercial cultivation next year.

Unilever acquired PBI from the UK government in 1987 for £95m, and a sale for return telephone calls.

Svenska Handelsbanken, of Sweden, also signed up for CoreBank. Several other UK

banks have also spent millions of pounds trying to implement CoreBank in their own systems although they have not been publicly announced as clients.

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COMPANIES & FINANCE

SBC knew of derivatives losses at UBS

By Clay Harris and William Hall in Basle

Swiss Bank Corporation knew of the derivatives problem at Union Bank of Switzerland when their courtship commenced, according to Marcel Ospel, SBC chief executive.

Mr Ospel, who will be chief executive of the new UBS, continental Europe's largest bank, said: "When our flirt got serious, we knew there was an issue which might lead to action."

UBS's global equities derivatives (GED) management group was responsible for losses of up to SFr650m (\$444m) in 1997, according to senior sources familiar with the figures.

Mr Ospel, however, played down any suggestion that the size of UBS's derivatives losses, or what they revealed about its management or risk controls, contributed to the dominant position executives from SBC - the smaller of the two banks - have taken in the post-merger institution.

UBS's derivatives losses were a "fraction of their annual revenue power in this area", Mr Ospel said in an interview.

"It's an even smaller fraction of what other areas of their banking businesses have been able to produce. UBS was not the only firm that lost money in this area in this period last year. We at SBC also had a difficult

month in October and so did others," he added.

UBS avoided admitting the full size of the derivatives losses by reporting the trading for which GED was responsible in different ways and in separate parts of a statement made before shareholders met in February to approve the merger.

In November, shortly before the SBC merger was announced, Ramy Goldstein, who ran the London-based GED operation for UBS, was dismissed with four traders.

Hans-Peter Bauer, global head of fixed income, currency and derivatives, was dismissed just before Christmas.

Mr Ospel said: "In this business, where decisions of significant size and impact are taken within minutes, obviously you have to delegate significant authority. This requires a high level of confidence in the professionals responsible. Obviously [UBS] was unhappy with how this thing was handled and took action which led to these redundancies."

The SBC-UBS merger awaits final approval by US authorities before it can officially take effect. Although the banks were happy with what had been achieved so far and were ahead of plan in some areas, Mr Ospel said: "We've been merging for six months without having really merged."

See Inside Track

El Al overcomes tourism crisis

By Avi Hochis in Jerusalem

El Al, Israel's state-owned airline slated for privatisation, cut losses from \$80m in 1996 to \$4m last year in spite of fewer incoming tourists, according to 1997 results to be approved by the company's board today.

The fall in losses was achieved on a slight decline in revenues, according to the airline.

The improvement is expected to help government efforts to begin the airline's long-awaited privatisation. "The company looks much more attractive as far as privatisation is concerned," the carrier said.

El Al said it offset the tourism crisis, caused by the deadlock peace process and suicide bombings by Palestinian extremists, by marketing efforts to increase the number of Israeli travellers.

The airline's improvement was also fuelled by the devaluation of the shekel against the dollar and falling fuel prices, as well as vigorous cost-cutting.

El Al yesterday said it cut first-quarter losses from \$31m to \$17m. The first quarter is a slow season in the airline industry.

A ministerial privatisation committee will meet on June 1 to discuss details of the first stage of the sell-off - a plan to float 49 per cent of the airline on the Tel Aviv Stock Exchange.

El Al's privatisation has been delayed for years by disputes over whether a ban on flights on Saturdays, the Jewish Sabbath, would be lifted under private ownership. Grounding the fleet on Saturdays costs the company an estimated \$40m-\$50m in annual profits.

The issue will be side-stepped in the initial phase of privatisation, if the 49 per cent float is approved, as the government will maintain control of the airline.

The committee will discuss other disputed issues, such as government subsidies of El Al's heavy security costs.

However, government officials say an offering is unlikely to take place before next year.

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NTT incurs deficit on handyphone operations

By Michio Nakamoto in Tokyo

NTT, Japan's largest telecommunications operator, is taking a Yen 4.6bn (\$476m) extraordinary loss and consolidating its personal handyphone system with its cellular phone company, highlighting the difficulties the service has faced in Japan.

The personal handyphone system (PHS), a lower cost version of the cellular phone service, was launched less than two years ago. NTT and the Ministry of Posts and Telecommunications had high expectations that it would spread to other parts of the world.

However, NTT's announcement of the losses incurred by its PHS operations, and

its decision to merge the business with Docomo, its cellular phone company, was an admission that its strategy had failed.

The advantages that PHS had over cellular phones when it was launched - the fact that it was about half the weight of a cellular phone, had a longer battery life and lower rates - are disappearing, said Norio Wada, executive vice-president.

In terms of call rates, cellular phones had become cheaper than PHS in areas within 100km, he said.

NTT on Friday unveiled stronger group profits for the year to March. Although the parent company suffered from rate cuts in the telephone business, group profits were boosted by new ser-

vices such as its integrated services digital network, which offers high-speed digital communications.

Group sales rose 7 per cent to Yen 450bn, while recurring profits were up 35 per cent to Yen 60bn. Net profits increased 94 per cent to Yen 29.8bn.

The PHS companies will be liquidated this year and NTT expects new services to be developed as a result of the transfer to Docomo. Data transmission services would be further developed and PHS was likely to be positioned more as a cordless phone, rather than a substitute for cellular phones, the company said.

NTT admitted that the transfer to Docomo would lower Docomo's profitability.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Forts (Belg/M'lands)	Générale de Banque (Belg)	Banking	\$1.2bn	Restructuring
Seagram (Canada)	PolyGram (N'lands)	Music	\$10.6bn	Record deal
Texas (US)	Energy Group (UK)	Power	\$7.3bn	Unconditional
Suez Lyonnaise (France)	SGB (Banking)	Banking	\$5.2bn	Mopping up
Pearson (UK)	Simon & Schuster (US)	Publishing	\$4.6bn	Hicks Muse helps
Ahold (N'lands)	Giant Food (US)	Retailing	\$2.7bn	Sainsbury sells
Artemis (France)	Christie's Int'l (UK)	Auctioneering	\$845m	Fiat bid
Commercial Union (UK)	Berlitz's Leben (Germany)	Insurance	\$340m	Agreed bid
RMC (UK)	Wulffner (Germany)	Cement	\$292m	Cash + debt
Nikko (Japan)	Roadchef (UK)	Catering	\$267m	Principal purchase

Ence gets focused for pan-Iberian pulp merger

The Spanish group is trying to raise its profile ahead of its privatisation and a proposed link with Portucel, writes David White

Market movers

A merger being considered between the two main pulp makers of Spain and Portugal could set a significant precedent by creating the Iberian peninsula's first genuinely cross-border industrial multinational. But it is still far from clear on what terms the match can be made.

In many respects, it would seem to be a marriage of equals. The two companies, Ence and Portucel Industrial, operate in the same segment of the same industry, in neighbouring countries that will soon have the same currency.

They have been subject to the ups and downs of the same business cycle and have equivalent production capacities. They share the idea that combining forces to create one of the biggest European pulp groups makes commercial sense. They are both quoted companies, majority state-controlled and on their respective governments' privatisation lists.

However, the problem faces Juan Villena, chairman of Sepi, the Spanish government industrial agency. Ence's privatisation could go ahead this year, but not to the same level with the collapse of the pulp market, hitting a low of Pta1.510 in February 1998.

According to Ence, there were too many good alternatives for short-term investment in the Spanish market. In contrast to competitors in

other countries, where the setback was "limited and transitory", its shares failed to bounce back. At the end of last month they were at exactly the Pta3.100 level of the last share offering.

This implies a market value of Pta68.5bn (\$451m), compared with Portucel's market capitalisation of Pta49.4bn (\$313m).

Its relatively low share price is seen as complicating plans both for the completion of its privatisation and for the proposed pan-Iberian link-up.

In spite of a return to profit last year and prospect of strong growth in its forestry business, Spanish investors have taken a wary view of this notoriously cyclical sector.

Ence, originally three state companies set up under the Franco regime in the 1960s and later merged into one, was partially privatised in two stages - 1989 and 1995. After the last offering, when they were priced at Pta3.100, the shares climbed to a peak of Pta3.550, and then tumbled to less than half that level with the collapse of the pulp market, hitting a low of Pta1.510 in February 1998.

Pedro Ferreras, chairman of Sepi, the Spanish government industrial agency, says Ence's privatisation could go ahead this year, but not to the same level with the collapse of the pulp market, hitting a low of Pta1.510 in February 1998.

Ence has become highly competitive in costs, has remodelled its plants, enjoys among the best margins in the sector, and has concentrated on ensuring a healthy balance sheet. There will be low

years," he says. "But there will also be very high points in the cycle."

In spite of the industry's tendency for what he calls "hysterical crises", it always recovers, he says.

Ence has had a bumpy few years. In 1996 it produced record net earnings of Pta12.37bn on sales of Pta62.28bn, with operating

profits generating a return on net assets of almost 41 per cent.

The following year the company was Pta1.95bn in the red, with turnover down to Pta37.81bn. Last year it showed net profits of Pta2.06bn, with turnover recovering by 22 per cent to Pta45.93bn.

Portucel followed a similar

pattern, with 1997 net profit somewhat higher than Ence's Es1.25bn and sales up 19 per cent at Es55.74bn, virtually the same as the Spanish group.

Mr Villena describes Ence as a "very focused" group, divided roughly equally between its forestry and pulp divisions, with no plans for moving into paper production.

He says it has the biggest base of eucalyptus forests of any European company, expanding by 7,000 hectares a year. This includes a plantation in Uruguay, where felling began last year.

It claims a top 20 per cent share of the European market for eucalyptus pulp, which is used for printing and writing paper, and third place among worldwide suppliers after Brazilian companies Aracruz and Cenibr. It already co-operates with Portucel, with joint ventures in marketing pulp outside Europe and managing timber imports.

Analysts say a combined Ence-Portucel group would still be vulnerable to volatile prices, but Mr Villena argues that it would be better equipped to ride the low part of the business cycle.

The merger proposal is not Ence's only option, he says, but it has "a colossal attraction".

Ence has the biggest base of eucalyptus forests of any European company, expanding by 7,000 hectares a year.

Both groups specialise in eucalyptus pulp, each with a capacity of about 500,000 tonnes a year. Together they would form one of half a dozen world pulp companies producing more than 1m tonnes annually, in a league with the main Brazilian, Swedish and US groups.

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Charges and chip price collapse hit Fujitsu

By Paul Abrahams in Tokyo

A collapse in semiconductor prices, losses caused by the Asian currency crisis and costs associated with the acquisition of Amdahl, of the US, dented net earnings at Fujitsu, Japan's biggest computer maker.

Consolidated net profits in the year ending in March plunged 88 per cent from Yen 46bn to just Yen 5.5bn (\$41.1m), but the company predicted a rebound to

Yen 75bn in the current year.

Fujitsu did not give details of the restructuring nor information about the amortisation of goodwill at Amdahl, the US mainframe, software and computer services business in which it increased its stake from 42 per cent to 100 per cent last October.

Last month, brokers ING Barings estimated that net profits would be set back Yen 20bn for amortisation of goodwill and Yen 16bn for restructuring charges

related to the US subsidiary.

In the group's profit and loss account, "other expenses" jumped from Yen 8bn to Yen 20bn.

Pre-tax profits fell 27 per cent from Yen 14.8bn to Yen 10.4bn but the tax charge rose 12.5 per cent from Yen 8bn to Yen 18.5bn. Fujitsu only made a net profit because of net income of Yen 18.5bn from affiliated companies in which it holds stakes.

Although capital expenditure in semiconductors fell from Yen 192bn to Yen 175bn, overall

all spending was virtually static at Yen 35.7bn.

Turnover increased 11 per cent from Yen 4,503bn to Yen 4,958bn, although the company did not say how much of this was due to the consolidation of

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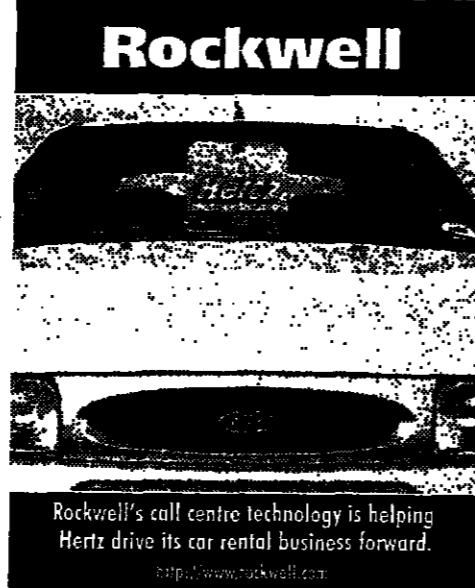
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Emerging markets

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INDUSTRIAL AND REGIONAL MARKETS																	AUSTRALIA (May 22 / Aus\$)																		
Figures in parentheses show number of firms in stock	US Dollar Index	% chg since 31/12/97	Pound Sterling Index	Yen Index	DM Index	Currency Index	Local Index	Local % chg from 31/12/97	Gross Index	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)	May 21	Day's Market	% Chg since 31/12/97	Day's % Chg since open	High	Low	Year ago (approx)	Sales	High	Low	Year ago (approx)	Average	High	Low	Year ago (approx)	Emerging markets		
Australia (72)	201.00	0.4	182.41	172.42	183.84	211.45	3.5	3.75	200.74	182.32	171.87	183.42	211.81	243.87	180.26	234.33	Astrod	2.75	-0.7	1.99	1.98	4.0	29.3	27.9	30.5	180.43	12.6	150.30	16.50	150.30	15.00	115.00	2.00	115.00	15.00
Austria (23)	252.19	23.4	228.86	216.33	230.41	230.28	30.4	1.43	249.69	228.77	213.78	228.14	228.01	232.19	181.80	197.14	Adres	2.27	-0.5	2.45	2.17	1.5	21.7	21.5	21.5	160.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
Belgium (28)	354.83	39.4	322.00	304.38	324.19	317.20	36.4	2.28	353.99	321.14	302.74	323.07	316.08	354.83	234.33	249.93	Adres	1.14	-0.5	1.26	1.14	1.5	19.0	19.0	19.0	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
Brazil (26)	222.74	-8.6	202.14	191.07	203.51	472.16	-3.6	2.15	222.96	202.50	180.89	203.72	471.87	322.44	184.84	257.54	Adres	10.92	-0.5	12.04	7.85	4.4	13.9	13.9	13.9	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
Canada (120)	246.45	18.0	223.63	211.41	225.17	258.84	17.6	1.55	246.51	223.89	211.06	225.24	248.78	199.10	205.22	Adres	8.60	-0.5	10.00	9.00	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00	
Chile (34)	509.73	13.9	462.57	437.25	465.71	484.37	11.4	1.30	511.61	464.86	438.04	467.46	468.08	521.81	375.32	386.53	Adres	11.70	-0.5	13.03	7.29	3.3	23.0	23.0	23.0	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
China (28)	441.27	56.4	400.45	378.53	403.17	494.71	55.4	1.85	443.00	402.34	379.29	404.76	496.44	451.12	267.45	276.71	Adres	8.08	-0.5	10.00	9.00	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
France (78)	324.86	35.8	294.81	278.67	298.81	300.32	33.0	1.98	324.80	294.81	277.92	298.59	300.08	324.88	213.42	228.11	Adres	7.02	-0.5	8.47	7.37	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
Germany (58)	301.72	31.5	273.81	268.82	275.87	275.67	26.5	1.19	298.50	272.01	256.43	273.85	307.72	204.89	212.28	Adres	6.47	-0.5	7.10	6.00	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00	
Iceland (37)	300.95	0.0	273.11	258.16	274.96	359.70	0.0	1.42	266.74	256.80	252.31	270.22	642.28	200.85	226.48	Adres	5.23	-0.5	6.70	5.50	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00	
Hong Kong, China (66)	265.71	-15.7	260.18	245.84	261.55	265.18	-19.7	5.55	268.85	262.35	247.32	263.93	267.37	500.03	262.93	265.57	Adres	5.05	-0.5	6.50	5.30	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
Indonesia (27)	37.11	-43.8	33.88	31.84	33.91	349.31	11.9	2.83	34.02	30.89	29.12	31.08	320.59	254.80	272.26	Adres	3.02	-0.5	4.70	3.50	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00	
Iran (16)	531.08	82.3	481.95	455.57	485.22	522.83	31.7	1.86	533.90	484.80	457.12	487.82	525.32	560.44	336.68	346.63	Adres	11.43	-0.5	12.00	10.80	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
Ireland (54)	170.68	45.1	155.85	148.45	161.88	187.15	88.44	2.05	184.96	88.27	81.32	141.12	188.52	130.18	194.00	Adres	9.12	-0.5	10.00	9.00	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00	
Italy (46)	84.61	-0.7	85.85	85.85	87.15	88.44	2.05	1.9	171.77	156.01	147.07	156.95	184.78	113.88	152.05	Adres	8.02	-0.5	8.47	7.37	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00	
Iceland (107)	185.42	0.6	150.11	141.80	151.13	244.79	-1.9	2.69	185.87	160.47	130.03	189.84	140.82	140.82	140.82	140.82	Adres	5.02	-0.5	5.50	4.30	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
Iceland (108)	151.93	-15.8	137.92	130.24	137.07	145.00	-9.7	1.70	152.88	156.87	150.47	150.47	150.47	150.47	140.17	140.17	Adres	4.02	-0.5	4.50	3.30	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
Ireland (18)	525.08	28.1	476.50	450.41	479.73	474.63	25.1	1.95	525.92	477.86	450.29	480.54	475.42	525.92	260.56	375.36	Adres	4.86	-0.5	5.30	4.10	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
New Zealand (14)	58.74	-10.0	62.38	58.98	62.80	66.14	-2.5	4.79	60.60	62.30	58.73	62.68	66.14	96.47	61.95	74.42	Adres	3.45	-0.5	4.00	3.80	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
Norway (30)	331.38	3.8	300.72	284.25	302.78	333.24	43.3	1.85	330.90	300.54	281.32	302.35	334.18	374.64	261.82	311.08	Adres	2.74	-0.5	3.20	3.00	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
Philippines (22)	94.68	19.4	85.92	81.22	86.51	182.37	15.8	1.14	94.64	86.95	81.03	86.47	183.18	173.10	57.54	156.25	Adres	1.92	-0.5	2.40	2.20	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
Portugal (21)	285.21	0.0	257.90	233.24	260.72	363.61	0.0	1.05	285.35	268.27	262.90	268.99	384.04	269.39	276.07	Adres	1.72	-0.5	2.20	2.00	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00	
Spain (42)	186.49	-17.2	166.24	159.97	170.38	194.56	-19.6	2.16	186.73	169.80	158.88	170.82	140.70	401.75	144.01	388.51	Adres	2.08	-0.5	2.50	2.30	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
Sweden (31)	381.91	44.2	355.85	338.18	358.07	443.35	41.3	1.73	388.38	353.85	333.38	355.75	440.43	396.69	236.28	355.90	Adres	2.45	-0.5	2.90	2.70	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
Switzerland (49)	808.67	28.6	552.38	522.12	556.11	582.84	25.8	1.69	604.43	548.96	517.51	522.87	585.65	512.15	439.98	461.84	Adres	2.82	-0.5	3.30	3.10	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
Switzerland (30)	408.68	18.9	370.87	350.57	373.39	370.55	20.2	1.09	405.74	368.50	347.39	370.72	368.68	410.80	285.85	366.53	Adres	2.62	-0.5	3.10	2.90	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
Switzerland (38)	22.05	14.3	20.42	18.18	20.83	23.88	5.6	8.14	22.33	20.28	18.12	20.40	31.88	68.08	13.10	53.85	Adres	2.02	-0.5	2.40	2.20	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
United Kingdom (207)	383.85	15.7	326.27	350.70	345.34	165.37	16.4	1.42	411.70	401.77	378.18	403.52	441.76	446.61	330.05	320.05	Adres	1.93	-0.5	2.40	2.20	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
United Kingdom (247)	452.95	14.3	310.42	324.32	327.88	293.23	0.0	1.55	340.61	309.36	281.63	322.55	325.52	342.06	230.15	338.15	Adres	1.84	-0.5	2.10	1.90	1.5	26.3	26.3	26.3	150.00	15.00	150.00	15.00	150.00	15.00	145.00	2.00	145.00	15.00
United Kingdom (248)	281.67	14.9																																	

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Aftermath

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Non-financial prod.	DEM 191.70	191.50	+0.20	+0.10	
IP-COMMUNI.	DEM 201.50	201.40	+0.10	+0.05	
IPB	DEM 157.50	157.30	+0.20	+0.13	
IP-CHEM.	DEM 194.40	193.50	+0.90	+0.47	
Pharmaceuticals	DEM 168.20	168.20	-0.00	-0.00	
IP-MARINA	DEM 197.70	197.60	+0.10	+0.05	

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Q3-2018 results were mixed, based on reported by other documents
and the latest disclosure, Valence Assets are unstable.

Figure 4. (D) σ_{rel}

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GLOBAL EQUITY MARKETS

* Sat May 16: Volume Weighted Price S&P/TSX 60, XTSX Comp Ex TSX 200, TSX Midcap, & Toronto Eq. Closed. 64 Unsettled. † JETTA-DAX after-hours Index: May 22: 5530.19 +16.65 +0.3% Correction: * Calculated at 15:00 EST. © Excluding bonds, 3 sectors, oil, utilities, financials and transportation. ‡ The DJ Ind. index measures day's high and low over the averages of the highest and lowest prices reached during the day by each stock, whereas the actual day's high and low represent the highest and lowest prices reached during the day by each stock, whereas the actual day's high and low represent the highest and lowest prices reached during the day by each stock.

THE NASDAQ STOCK MARKET

AMEX PRICES

AMEX PRICES 4 per close May 22

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FT GUIDE TO THE WEEK

MONDAY 25

Swiss history

Switzerland publishes its first detailed report on its gold transactions during World War II. The sums of money involved are already well known, but the 200-page report by a panel of international historians, led by Professor Jean-François Bergier, will attempt to assess the motivation of the Swiss authorities at the time and shed light on questions such as Switzerland's role in prolonging World War II by financing the German war machine. If the report is particularly critical it could increase the pressure on the big three Swiss banks to make a sizeable and speedy settlement of the multibillion dollar class actions they are trying to resolve in the US. It may also provide ammunition for US lawyers who are keen to launch a similar class action against the Swiss National Bank, which handled the bulk of the gold transactions with Nazi Germany.

Spanish trial

The trial begins in Spain's supreme court of former interior minister José Barrionuevo and 11 others over the "dirty war" carried out against Basque terrorist suspects in the mid-1980s. They are all charged in relation to a kidnapping in 1983, the beginning of a four-year campaign by the so-called Anti-Terrorist Liberation Groups (Gal), which killed more than 20 people in south-west France. The accused include eight police officers, two former top security officials and a former local Socialist party chief. Public prosecutors are seeking jail sentences totalling 178 years.

North-south view

South African President Nelson Mandela and Jose Ramos Horta, the East Timorese Nobel Peace Prize winner, are among invited speakers at the North-South Conference for Sustainable Development (to May 29) in Berne, Switzerland.

Agenda 2000 discussed

European Union foreign ministers in Brussels will hold their first detailed discussion on the Agenda 2000 programme of EU reforms, in preparation for next month's EU summit in Cardiff. They will also discuss attempts to improve relations with Turkey, and preparations for an association council with Turkey due to take place in the evening – but still uncertain to go ahead, amid objections from Greece to the terms of the discussions. Ministers are likely to reiterate the EU's condemnation of India's nuclear tests and discuss future relations with the sub-continent, plus the possibility of upgrading relations with Pakistan in an attempt to persuade it not to carry out its own tests. They will give their first response to last week's deal over the US Helms-Burton and Iran-Libya sanctions laws, as well as discussing the deadlock in the Middle East peace process.

CAP reform thoughts

European Union agriculture ministers will be discussing reform of the Common



Japanese Emperor Akihito is to receive one of Britain's most coveted decorations from the Queen this week amid continuing protests by former prisoners of war

Agricultural Policy when they hold their monthly meeting in Brussels. The UK presidency of the union is preparing a statement summarising ministers' latest thoughts on reform for the heads of state summit in Cardiff next month. Specific conclusions are unlikely.

Opec preparations

The board of governors of the Organisation of Petroleum Exporting Countries meets in Vienna to draw up an agenda for the group's summer ministerial conference which will be held on June 24. Opec technical experts are scheduled to meet on June 15 ahead of the conference and the four-man monitoring committee on June 23.

Balkan forum

Tirana hosts a two-day Balkan forum aimed at boosting economic development in the troubled region; the US-inspired Southeast Europe Co-operation Initiative (SEC) was set up in 1996 to foster economic relations among Balkan states and help them integrate into European Union structures.

Tennis

The French Open is played out in Paris until June 7.

Holidays

UK, Ukraine, Jordan, Mauritania, Zimbabwe, Argentina, US, Venezuela.

TUESDAY 26

Imperial visit

Japanese Emperor Akihito and Empress Michiko arrive for their state visit to Britain as part of a European tour. The emperor is to be presented by Queen Elizabeth with the Order of the Garter and the imperial couple will lay a wreath at the tomb of the unknown soldier in London; former British prisoners of war and internees of the Japanese plan a demonstration in front of the Japanese embassy to demand a full apology and what they consider appropriate compensation for their sufferings.

Embassy officials point out that the issue of compensation was settled legally under a treaty of 1951 and that Japan has made a full and unequivocal apology.

Transport agenda

A two-day European Union transport ministers' conference opens in Copenhagen; the agenda includes railway policy, modern technology, investment and road transport.



The world's largest cruise ship, the 109,000 tonne Grand Princess, begins her maiden voyage from Istanbul to Barcelona; she boasts five swimming pools, nine restaurants and 1,300 cabins.

FT Survey

Brazilian Privatisation.

Sweet talking

The current state of the world's sugar industry will be discussed at a ministerial meeting in Havana of the International Sugar Organisation, made up of the world's leading producers and consumers. Prospects for leading producers and import projections by major consumers, as well as the effects of cane sugar substitutes on the market, will be discussed by the ministers, technocrats and scientists. Thirty-four countries will be represented, but Cuban officials could not say whether the US, a major consumer, will attend.

Indonesian debt round

Deutsche Bank hosts the next round of talks on the rescheduling of Indonesian debt in Frankfurt. Deutsche, Bank of Tokyo-Mitsubishi (BTM) and Chase Manhattan co-chair the steering committee representing banks at the talks. Indonesia and its creditors failed to reach agreement in their last round of talks in Tokyo on May 10 to reschedule \$80bn in private sector debt.

Up for sail

The world's largest cruise ship, the 109,000 tonne Grand Princess, begins her maiden voyage from Istanbul to Barcelona; she boasts five swimming pools, nine restaurants and 1,300 cabins.

Experts on debt

Bank of England governor Eddie George and Guillermo Ortiz, his counterpart at the Bank of Mexico, are among speakers at a London conference arranged by Foreign & Colonial Emerging Markets which aims to examine the Asian debt crisis from the viewpoint of both lenders and borrowers and contrast its corporate roots with the government borrowing

Holiday

Georgia, Turkey.

WEDNESDAY 27

African bank meeting

Up to 1,700 delegates are expected to attend the annual meeting of the African Development Bank which opens in Abidjan and continues until Friday. A plan to increase the capital of the bank by 35 per cent and give non-African shareholders more voting powers will be put to a vote.

Greek stoppage

Greece's biggest labour confederation, GSCE, calls a 24-hour nationwide strike to protest against the socialist government's privatisation plans.

THURSDAY 28

Experts on debt

Bank of England governor Eddie George and Guillermo Ortiz, his counterpart at the Bank of Mexico, are among speakers at a London conference arranged by Foreign & Colonial Emerging Markets which aims to examine the Asian debt crisis from the viewpoint of both lenders and borrowers and contrast its corporate roots with the government borrowing

basis of Latin American debt problems. Contact 0171 831 3113.

Nato-Russia talks

North Atlantic Treaty Organisation foreign ministers meet their counterparts from Russia and Ukraine for talks in Luxembourg.

Danish referendum

Denmark holds a referendum on revisions to the European Union's Amsterdam treaty which would pave the way for EU enlargement eastwards and a common policy on refugees and asylum.

Bear facts



A man charged with hijacking a Turkish Airlines jet with a teddy bear which he claimed contained a bomb goes on trial in Diyarbakir, Turkey.

Holidays

Armenia, Azerbaijan.

SATURDAY 30

Chirac goes to Beirut

French president Jacques Chirac visits Lebanon to attend the inauguration of the rebuilt French ambassador's residence in Beirut, which was badly damaged during the Lebanese civil war.

FT Survey

Guide to Unit Trusts (UK editions only).

Holidays

Hong Kong, Taiwan, Croatia.

SUNDAY 31

Ecuadorians vote

Ecuadorians vote in the first round of presidential elections. The most likely candidates to go through to the second round on July 12, opinion polls say, are Quito's mayor Jamil Mahuad, of the centre-right Popular Democracy party, and businessman Alvaro Noboa, backed by former President Abdala Bucaram. With a new president in office for a four-year term, Ecuadorians hope the elections will end a period of political instability. Voters will also pick a new congress to sit for four years after a recent constitutional reform abolished mid-term elections.

Holidays

Israel, Germany, Senegal.

Compiled by Roger Beale
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ECONOMIC DIARY

Other economic news

Monday: The New Zealand Reserve Bank's monetary policy statement should sanction an easing in monetary conditions.
Tuesday: US existing home sales should have eased in April, while consumer confidence is thought to have dropped a little in May. Household consumption in France is thought to have risen in April following two consecutive falls.
Wednesday: Japanese industrial production should have continued declining in April as companies ran down stocks, but large retailers should post their first rise in sales since taxes went up.
Thursday: The Confederation of British Industry's monthly trade survey will show whether UK manufacturers have taken comfort from sterling's recent decline. US first quarter GDP growth may be revised upwards slightly. The Bundesbank is expected to keep interest rates on hold.
Friday: The UK's trade deficit should have fallen back in March, reflecting a smaller non-EU deficit, but the underlying trend should still be worsening. French employment probably rose again in April.

ACROSS
1 He is responsible for delivery of course (6)
4 Round and round (6)
5 I, for instance, could be the landlord (6)
10 Straddled the finest horse (8)
11 Quarrel over your old fashioned notability (6)
12 Getting rid of new move in operatic sequence (8)
13 Used to be when wife came first (3)
14 Take offence at money paid to house stock exchange (6)
17 Vehicle reversed into mountain? Another one will pull it out (7)
21 Hunt about container for sensible (6)
25 Being outside found back in (3)
26 One who brings forward new cure after gentle show (8)
27 Give proof at cricket match (6)
28 I'm out MEP, negotiating for a trading centre (8)
29 Love farm fruit! (6)
30 Cloudy weather at boring stretch of water (8)
31 Peculiar words on a second date (6)

Day	Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day	Released	Country	Economic Statistic	Median Forecast	Previous Actual
Monday	Japan		Apr supermarket sales**	N/A	-10.7%	May 29	Japan		Apr consumer price index** (nation)	0.4%	2.2%
May 25	Japan		Apr department store sales**	N/A	-20.6%	Japan			Apr construction orders**	N/A	-4.7%
	Germany		Apr producer price index*	0.2%	-0.1%	Japan			Apr housing starts**	10.5%	-11.9%
	Germany		Apr producer price index**	0.5%	0.6%	Japan			Apr construction starts**	N/A	-12.4%
Tuesday	France		Apr household consumption*	2.0%	-0.1%	Italy			Mar EU trade balance	1.08m	1.02m
May 26	US	BTM-Schroder	May 23	N/A	1.2%	Italy			Apr ex-EU trade balance	1.38bn	1.48bn
	US		Apr existing home sales	4.70m	-4.89m	UK			Mar global visible trade	-2.15bn	-22.2bn
	US		May consumer confidence	135.3	136.7	UK			Apr ex-EU visible trade	-21.2bn	-21.1bn
	Japan		May trade balance (first 10 days) not**	N/A	-Y43bn	UK			Apr EU harmonised cons-price index*	N/A	1.6%
Weds	France		Mar trade balance*	FFr13.7bn	FFr13.8bn	US			Apr personal income*	0.3%	0.3%
May 27	Japan		Apr industrial product**	-2.5%	-2.3%	US			Apr personal consumer expenditure	0.5%	0.5%
	Japan		Apr shipments*	N/A	-1.4%	US			May Chicago PMI†	58.0%	58.6%
	Japan		Apr retail sales**	6.1%	-14.8%	US			May Michigan Sentiment final**	103.5	105.2
Thurs	Japan		Mar coincident index	10.0%	25.0%	US			May agriculture prices	N/A	2.9%
May 28	Japan		Mar leading differential index	30.0%	22.2%	During the week...					
	UK		May CBI industrial trends	N/A	N/A	Germany			Apr iron consumer climate	N/A	101
	US		Apr durable orders	0.5%	0.4%	Germany			Apr import prices*	0.0%	-0.6%
	US		Apr durable shipments	N/A	1.4%	Germany			Apr import prices**	-0.3%	-0.5%
	US		Q1 GDP preliminary	4.4%	4.2%	Germany			May Hesse cost of living*	N/A	0.3%
	US		Q1 GDP chain price index	0.9%	0.9%	Germany			May Bavaria cost of living*	N/A	0.2%
	US		Initial claims May 23	310k	313k	Germany			May B Water cost of living*	N/A	0.3%
	US		State benefits May 23	N/A	2107k	Germany			May Nord Rhine Westphalia cost of living*	N/A	0.1%
	US		Q1 after tax corporate profit prem	0.5%	-2.9%	Germany			May pral cost of living* west	0.3%	0.3%
	Canada		Apr department store sales**	11.8%	12.4%	Germany			May pral cost of living** west	1.2%	1.4%
Fn	Japan		May consumer price index** (Tokyo)	0.5%	0.7%						

*month on month, **year on year, seasonally adjusted. Statistics, courtesy Standard & Poor's MMS.

